

TZ LIMITED
ACN 073 979 272

**NOTICE OF ANNUAL GENERAL MEETING AND EXPLANATORY
MEMORANDUM**

*For a meeting to be held on 26 February 2010 at 10.00 am
at Press Room 2 and 3, Lower Ground Level, Radisson Plaza Hotel, Sydney,
27 O'Connell Street, Sydney, New South Wales*

**THIS IS AN IMPORTANT DOCUMENT AND SHOULD
BE READ IN ITS ENTIRETY**

**If you do not understand any part of this document
please contact a professional adviser immediately**

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ACTION REQUIRED BY SHAREHOLDERS

Step 1: Read the Notice of Meeting, Explanatory Memorandum and Independent Expert's Report. The Explanatory Memorandum sets out information that the Directors believe to be material to shareholders in deciding whether or not to pass the resolutions set out in the Notice of Meeting. This information is important.

Step 2: Vote on the Resolutions: Your vote is important. You may cast your vote by:

- attending and voting at the meeting at Press Room 2 & 3, Lower Ground Level, Radisson Plaza Hotel, Sydney, 27 O'Connell Street, Sydney, New South Wales at 10.00am (Sydney time) on Friday, 26 February 2010; or
- completing and returning the enclosed proxy form so as to be received by TZ Limited's share registry, Computershare Investor Services Pty Limited, by 10.00 am on 24 February 2010.



27 January 2010

Dear shareholder,

It would be an understatement to say that 2009 was an extremely difficult year for TZ Limited. The company was in a critical situation and its future survival in doubt. During the year the company suffered a serious loss, assisted ASIC in an investigation of former Directors, commenced litigation against a former Director, and there was a lacklustre trading performance.

The problems facing the company culminated with the failure to pay interest due on outstanding convertible notes. This event of default placed the company in an extremely serious situation. It gave the convertible note owners, QVT Fund LP and Quintessence Fund L.P. ("the QVT Funds"), the right to enforce the repayment of all outstanding debt which would have effectively forced the company into administration and probable liquidation.

I joined the company as Chairman in June 2009. Faced with the serious situation at TZ Limited, myself and my fellow Board members Kenneth Ting and Willem de Vlugt have worked to negotiate a lifeline for the company and to implement a financial rescue plan that will allow the company to continue trading successfully in the future.

The rescue plan

The items of business you are being asked to consider for the upcoming Annual General Meeting form the basis of the rescue plan for the company.

The foundation of this plan is a debt for equity swap that has been negotiated with the QVT Funds. The swap agreement would result in a large proportion of the debt owed to the QVT Funds (one half of the principal plus outstanding interest) being replaced with new shares in TZ Limited ("the Proposal"). Under the Proposal, the new shares will be issued to the QVT Funds at a price of \$1.00 per share meaning the company will issue approximately 18.6 million new shares to the QVT Funds upon the Proposal being approved by shareholders. This issue of new shares will remove the threat associated with the company's default on its interest payment.

If the Proposal is approved by shareholders, then TZ Limited will also be permitted to issue shares in repayment of the other half of the outstanding principal owed to the QVT Funds at any time up to 26 May 2011 at a price of \$1.20 per share. If that occurs, then the whole of the debt owed to the QVT Funds will have been repaid.

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Further, if resolution 19 is passed, any shares that the QVT Funds receive for converting any part of the outstanding principal and the outstanding interest owed to them for the 2008 and 2009 calendar years under the Proposal will be subject to a 12 month escrow arrangement. Therefore, the QVT Funds will not be able to sell any of those escrowed shares until at least 12 months after acquiring them. Your Directors believe this escrow arrangement will help maintain stability in the share price of TZ Limited's shares.

After lengthy negotiations with a range of parties including the QVT Funds, the Board firmly believes the Proposal is in the long term interests of shareholders and is the best available alternative to solve TZ Limited's current difficulties.

Your Board has sought the opinion of an Independent Expert, Lonergan Edwards & Associates Limited ("Lonergan Edwards") on the Proposal and the escrow arrangement. After assessing the impact of the Proposal and the escrow arrangement, Lonergan Edwards has concluded that each is reasonable and in the best interests of TZ Limited shareholders in the absence of a superior proposal. Lonergan Edwards has concluded that TZ Limited shareholders will therefore be significantly better off if the Proposal and the escrow arrangement are approved. The report of Lonergan Edwards is attached as annexure A to the Explanatory Memorandum and I urge you to carefully read the report in its entirety.

Shareholders should note that in the event the debt for equity swap with the QVT Funds is not agreed by shareholders by passing resolutions 9 and 10, the QVT Funds may demand repayment of all of the outstanding debt plus interest payable under the convertible notes held by them. If this occurs, it is very likely that TZ Limited would be rendered insolvent and would not be able to continue trading as a going concern and would be placed into administration. Lonergan Edwards have stated in their report attached to the Explanatory Memorandum that "TZ shareholders are highly unlikely to receive any value for their TZ shares" if TZ Limited is placed into administration.

Your Board therefore recommends that TZ Limited shareholders approve the Proposal in the absence of a superior alternative, by voting in favour of resolutions 9 and 10. Your Board also recommends that TZ Limited shareholders approve the proposed escrow arrangement by voting in favour of resolution 19.

Additional achievements

Along with negotiating a financial rescue plan and managing the day-to-day business requirements, the Board of TZ Limited has achieved progress in a number of areas since June 2009. Some of these achievements worth highlighting include:

- Moratorium with the QVT Funds. After lengthy negotiations, the Board achieved a moratorium with the QVT Funds to not seek recourse as a result of the default. This moratorium was without penalty to TZ Limited. Without this achievement the Board would not have been able to construct the financial rescue plan.
- Capital raising. The Board conducted an important capital raising for the company, successfully raising funds in two tranches. The capital was crucial to the short term



survival of the company, allowing the company to continue operations in North America.

- Reconstructing the company accounts. After learning that TZ Limited's financial records were in a particularly poor state, the Board implemented a major project to effectively reconstruct the company accounts from scratch. At completion of the project the accounts were presented for audit, a report was issued by international auditors, and the accounts together with the auditor's report were lodged with the Australian Securities Exchange in December 2009.
- Managed litigation processes. The Board has managed an onerous litigation process against a former Director. The litigation is being defended by the former Director and the Board is hopeful the process will conclude in the coming months. Also, the Board has managed several successful litigation processes in the US and Australia since June 2009 in addition to the claims against its former Director.
- Cash flow management. With extremely limited resources the Board has managed TZ Limited's cash flow on a daily basis to ensure the business continued operating effectively.
- Repayment of debt. A wholly owned subsidiary of TZ Limited reduced the principal amount of a loan by half after repaying debt from cash flows. This repayment satisfied the subsidiary's bank lender meaning TZ Limited is now able to access the free cash flows to use in other parts of the group.
- Operational achievements. These have included readjusting the company's operational business plan, consolidating the company's position with distribution partners and customers, reducing operational overheads without compromising the roll out strategy, launching a new data centre cabinet locking technology, and agreeing to include TZ technology in what is currently the world's thinnest lap top computer.
- Cost savings. With Board members actively involved in the management of TZ Limited the company has been able to conduct its business with a smaller Board and management team than might otherwise be the case. This has resulted in important efficiencies and cost savings.

Other resolutions

You are also being asked to consider a number of other resolutions at this Annual General Meeting. Several of these relate to reappointing myself as Chairman and Kenneth Ting and Willem de Vlugt as Board members. I firmly believe that we are the best people to lead TZ Limited into the future. My fellow Directors have worked tirelessly to negotiate a lasting solution to TZ Limited's challenges and position the company for a better future.

The reappointment of the current Board will provide continuity and certainty for the business over the foreseeable future. This is in the best interests of all shareholders,



including the QVT Funds, which have predicated their support for the rescue plan on the continuation of the current Board at TZ Limited.

You are also being asked to consider the adoption of a director and executive equity plan and the issuance of share rights and options to myself as Chairman and Kenneth Ting and Willem de Vlugt as Directors. To date the Board members of TZ Limited have forgone a commercial level of payment for their services as Directors. If resolutions 11 to 18 are approved by shareholders, the three directors will receive future payment in the form of share rights and options, a large portion of which will be dependent on meaningful and measurable performance hurdles. The Board has sought the advice from a respected independent remuneration expert who has advised that the proposed remuneration package is in line with industry practice and industry peer equivalents.

The future

Despite the significant challenges that TZ Limited has faced in recent times, I firmly believe the core business of TZ Limited is sound. The company is a leader in security, including remote lock, fastening & control objects. The company has a solid international operational base, many blue chip clients, and dedicated and expert staff.

Assuming the rescue plan is agreed to by shareholders, I am confident shareholders can look forward to a healthy future for TZ Limited.

This Annual General Meeting is extremely important to the future of TZ Limited. I encourage you to read the Notice of Meeting and Explanatory Memorandum carefully and urge you to support the resolutions, either by voting on the attached proxy forms or attending the meeting in person.

With your support TZ Limited has a bright future.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mark Bouris', written over a light grey rectangular background.

Mark Bouris

Chairman

TZ Limited (ASX:TZL)

TZ LIMITED
ACN 073 979 272

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that an Annual General Meeting of members of TZ Limited (“**Company**”) will be held at Press Room 2 & 3, Lower Ground Level, Radisson Plaza Hotel, Sydney, 27 O’Connell Street, Sydney, New South Wales at 10.00am (Sydney time) on Friday, 26 February 2010.

The business to be considered at the Annual General Meeting is set out below. Information on the proposals to which the business relates is set out in the Explanatory Memorandum which accompanies this Notice. This Notice should be read in conjunction with the accompanying Explanatory Memorandum.

ORDINARY BUSINESS

Financial statements and reports

To receive and consider the financial report, directors’ report and auditor’s report for the financial year ended 30 June 2009.

Short explanation: This item of business is for discussion at the Annual General Meeting and is not a resolution.

Resolution 1 – Re-election of Mark Bouris as director

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

“That Mark Bouris, who was appointed as a director of the Company since the last annual general meeting of the Company and, being eligible, offers himself for re-election, be re-elected as a director of the Company.”

Resolution 2 – Re-election of Kenneth Ting as director

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

“That Kenneth Ting, who was appointed as a director of the Company since the last annual general meeting of the Company and, being eligible, offers himself for re-election, be re-elected as a director of the Company.”

Resolution 3 – Re-election of Willem de Vlugt as director

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

“That Willem de Vlugt, who retires in accordance with regulation 14.5 of the Company’s constitution and, being eligible, offers himself for re-election, be re-elected as a director of the Company.”

Resolution 4 - Remuneration report

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

“That the remuneration report for the financial year ended 30 June 2009 be adopted.”

Short explanation: The remuneration report is set out in the Company’s annual report for the financial year ended 30 June 2009. Section 250R(2) of the Corporations Act 2001 (Cth) provides that at a listed company’s annual general meeting, a resolution that the remuneration report be adopted must be put to the vote. However, shareholders should be aware that the vote on the resolution is advisory only and does not bind the directors or the Company.

Resolution 5 - Re-appointment of auditor

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

“That BDO Audit (NSW-VIC) Pty Limited, who were appointed by the directors as auditor since the last annual general meeting of the Company and having been nominated and having consented in writing to act as auditor of the Company, for the purposes of section 327B(1)(b) of the Corporations Act 2001 (Cth) and for all other purposes, be re-appointed auditor of the Company.”

SPECIAL BUSINESS

Resolution 6 – Approval of prior issues of convertible notes to TZ Resurgence Nominees Pty Limited

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That for the purposes of Listing Rule 7.4 of the ASX Listing Rules and for all other purposes, the Company approve the issues during the past 12 months of an aggregate of 1,518,000 convertible notes to TZ Resurgence Nominees Pty Limited, the details of which are set out in section 6 of the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by TZ Resurgence Nominees Pty Limited and any of its associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 7 – Approval of prior issues of convertible notes to Sydcomp Pty Limited

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That for the purposes of Listing Rule 7.4 of the ASX Listing Rules and for all other purposes, the Company approve the issues during the past 12 months of an aggregate of 2,343,000 convertible notes to Sydcomp Pty Limited, the details of which are set out

in section 7 of the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by Sydcomp Pty Limited and any of its associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 8 – Approval of prior issues of securities to Moon Corporation Pty Limited

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That for the purposes of Listing Rule 7.4 of the ASX Listing Rules and for all other purposes, the Company approve the issue of 1,000,000 ordinary class shares and 1,000,000 options to acquire ordinary class shares to Moon Corporation Pty Limited on 15 June 2009, the details of which are set out in section 8 of the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by Moon Corporation Pty Limited and any of its associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 9 – Approval of issue of shares to QVT Funds

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, subject to passing resolution 10, for the purposes of item 7 of section 611 of the Corporations Act 2001 (Cth) and for all other purposes, approval is given for the issue of:

(a) *a total of 12,000,000 fully paid ordinary shares in the Company (“Shares”) at an issue price of \$1.00 each as follows:*

(i) *10,818,500 Shares to QVT Fund LP; and*

(ii) *1,181,500 Shares to Quintessence Fund L.P.,*

as a result of the conversion by QVT Fund LP and Quintessence Fund L.P. (collectively, the “QVT Funds”) of a total of 12,000 convertible notes issued by the Company each with a face value of \$1,000 pursuant to and in

*accordance with the Convertible Note and Option Subscription Deed between the Company and the QVT Funds dated 24 December 2007 (the "**QVT Convertible Note Deed**") as amended by the term sheet between the QVT Funds and the Company dated 14 September 2009 as amended (such term sheet as amended hereinafter the "**Term Sheet**")*;

(b) *a total of 10,000,000 Shares at an issue price of \$1.20 each (as may be adjusted from time to time in accordance with the QVT Convertible Note Deed) as follows:*

(i) *9,015,417 Shares to QVT Fund LP; and*

(ii) *984,583 Shares to Quintessence Fund L.P.,*

as a result of the conversion by the QVT Funds of a total of 12,000 convertible notes issued by the Company each with a face value of \$1,000 pursuant to and in accordance with the QVT Convertible Note Deed as amended by the Term Sheet;

(c) *2,213,333 Shares at an issue price of \$1.00 each as follows:*

(i) *1,995,412 Shares to QVT Fund LP; and*

(ii) *217,921 Shares to Quintessence Fund L.P.,*

as a result of the capitalisation of accrued but unpaid interest owing to the QVT Funds for the period to 31 December 2008, being interest owing on the 24,000 convertible notes issued by the Company under the QVT Convertible Note Deed, in accordance with the Term Sheet;

(d) *2,400,000 Shares at an issue price of \$1.00 each as follows:*

(i) *2,163,700 Shares to QVT Fund LP; and*

(ii) *236,300 Shares to Quintessence Fund L.P.,*

as a result of the capitalisation of accrued but unpaid interest owing to the QVT Funds for the period 1 January 2009 to 31 December 2009, being interest owing on the 24,000 convertible notes issued by the Company under the QVT Convertible Note Deed, in accordance with the Term Sheet; and

(e) *up to 2,000,000 Shares at an issue price of \$1.00 each as follows:*

(i) *1,810,000 Shares to QVT Fund LP; and*

(ii) *190,000 Shares to Quintessence Fund L.P.,*

as a result of the capitalisation of moneys paid or to be paid by the QVT Funds on behalf of the Company since 6 July 2009 which have not been repaid to the QVT Funds by the Company, in accordance with the Term Sheet,

and on the other terms set out in the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by QVT Fund LP and Quintessence Fund L.P. and any of their associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 10 – Reorganisation of QVT Convertible Notes

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, subject to passing resolution 9, the shareholders of the Company approve and authorise the reorganisation of the 24,000 convertible notes held by QVT Fund LP and Quintessence Fund L.P. so that the conversion price applying on the conversion of the 24,000 convertible notes is reduced from \$4.00 per ordinary share in the Company to \$1.00 per ordinary share for 12,000 of the convertible notes and to \$1.20 per ordinary share for 12,000 of the convertible notes and otherwise on the terms and conditions set out in the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by QVT Fund LP and Quintessence Fund L.P. and any of their associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 11 – Adoption of Director and Executive Equity Plan

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That the Director and Executive Equity Plan, the Rules of which are summarised in section 11 of the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed, be approved for the purposes of Listing Rule 7.2 of the ASX Listing Rules, exception 9 and for all other purposes.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by any Director of the Company and their associates. However, the Company need not disregard a vote on the resolution if:

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

- 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 12 – Grant of Rights to Mark Bouris

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, under and for the purposes of Listing Rule 10.14 of the ASX Listing Rules and for all other purposes, the grant to Mark Bouris, the Executive Chairman of the Company, of 1,600,000 Rights (in two equal tranches of 800,000 Rights) under the Director and Executive Equity Plan on the terms set out in the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed, be approved.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by any Director of the Company and their associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 13 – Grant of Options to Mark Bouris

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, under and for the purposes of Listing Rule 10.14 of the ASX Listing Rules and for all other purposes, the grant to Mark Bouris, the Executive Chairman of the Company, of 3,000,000 Options (in three equal tranches of 1,000,000 Options) under the Director and Executive Equity Plan on the terms set out in the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed, be approved.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by any Director of the Company and their associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 14 – Grant of Rights to Kenneth Ting

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, under and for the purposes of Listing Rule 10.14 of the ASX Listing Rules and for all other purposes, the grant to Kenneth Ting, an executive Director of the

Company, of 1,200,000 Rights (in two equal tranches of 600,000 Rights) under the Director and Executive Equity Plan on the terms set out in the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed, be approved.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by any Director of the Company and their associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 15 – Grant of Options to Kenneth Ting

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, under and for the purposes of Listing Rule 10.14 of the ASX Listing Rules and for all other purposes, the grant to Kenneth Ting, an executive Director of the Company, of 2,250,000 Options (in three equal tranches of 750,000 Options) under the Director and Executive Equity Plan on the terms set out in the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed, be approved.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by any Director of the Company and their associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 16 – Grant of Rights to Willem de Vlugt

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, under and for the purposes of Listing Rule 10.14 of the ASX Listing Rules and for all other purposes, the grant to Willem de Vlugt, a Director of the Company, of 200,000 Rights (in two tranches, one of 80,000 Rights and the other of 120,000 Rights) under the Director and Executive Equity Plan on the terms set out in the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed, be approved.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by any Director of the Company and their associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 17 – Grant of Options to Willem de Vlugt

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, under and for the purposes of Listing Rule 10.14 of the ASX Listing Rules and for all other purposes, the grant to Willem de Vlugt, a Director of the Company, of 450,000 Options (in three equal tranches of 150,000 Options) under the Director and Executive Equity Plan on the terms set out in the Explanatory Memorandum which accompanies the notice of meeting convening the meeting at which this resolution is proposed, be approved.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by any Director of the Company and their associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 18 – Section 195(4) approval

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of section 195(4) of the Corporations Act 2001 (Cth) and for all other purposes and subject to the passing of resolutions 12, 13, 14, 15, 16 and 17 above, the board of directors of the Company be authorised to do all acts necessary to complete the transactions as contemplated by resolutions 12, 13, 14, 15, 16 and 17.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by any Director of the Company and their associates. However, the Company need not disregard a vote on the resolution if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 19 – Approval of acquisition by the Company of relevant interest pursuant to escrow arrangement

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, subject to passing resolutions 9 and 10, for the purposes of item 7 of section 611 of the Corporations Act 2001 (Cth) and for all other purposes, approval is given to the acquisition by the Company of any relevant interest in ordinary shares in the Company as a result of the entry into of the agreement between the Company and QVT Fund LP and Quintessence Fund L.P. (collectively the "QVT Funds") restricting the QVT Funds from selling, assigning, transferring or otherwise disposing of, or agreeing or offering to sell, transfer or otherwise dispose of any of the shares in the Company that may be issued under paragraphs (a), (b), (c) or (d) of resolution 9 above (each an "Escrowed Share") during the period of 12 months from the respective date of issue of the Escrowed Share pursuant to and in accordance with the term sheet between the QVT Funds and the Company dated 14 September 2009 as amended.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by the Company, QVT Fund LP and Quintessence Fund L.P. and any of their associates. However, the Company need not disregard a vote on the resolution if:

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

ADDITIONAL INFORMATION

This notice of meeting is accompanied by an Explanatory Memorandum which provides an explanation of the business of the meeting, including the proposed resolutions.

Voting entitlement

The board of directors of TZ Limited has determined in accordance with regulation 7.11.37 of the Corporations Regulations that for the purpose of voting at the Annual General Meeting, shares will be taken to be held by those who hold them at 7.00 pm (Sydney time) on 24 February 2010. This means that if you are not the registered holder of a relevant share at the time, you will not be entitled to vote in respect of that share.

Voting by proxy

Each shareholder who is entitled to attend and vote at the Annual General Meeting may appoint a proxy to attend and vote on behalf of that shareholder. The proxy need not be a shareholder.

A shareholder who is entitled to cast two or more votes may appoint one or two proxies and may specify the proportion or number of votes that each proxy is appointed to exercise. If a shareholder appoints two proxies and the appointment does not specify the proportion, or number, of shareholder's votes, each proxy may exercise half the votes (disregarding fractions). Neither proxy may vote on a show of hands.

A proxy appointment form is enclosed with this notice of meeting. For the appointment of a proxy to be effective for a meeting, the following documents must be received by 10.00 am on 24 February 2010:

- (a) the proxy's appointment; and

- (b) if the appointment is signed by the appointer's attorney – the authority under which the appointment was signed or a certified copy of the authority.

Documents may be lodged by posting, delivery or facsimile to TZ Limited's share registry at:

Computershare Investor Services Pty Limited

GPO Box 242

Melbourne VIC 3001

Australia

Facsimile: 1800 783 447 (within Australia)

+61 3 9473 2555 (outside Australia)

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Corporate representatives

A body corporate may appoint an individual as a representative to exercise all or any of the powers the body corporate may exercise at meetings of shareholders. The appointment may be a standing one. Unless otherwise specified in the appointment, the representative may exercise, on the body corporate's behalf, all of the powers that the body corporate could exercise at a meeting or in voting on a resolution.

By order of the board of directors
of TZ Limited

A handwritten signature in black ink, appearing to read 'Kenneth Ting', is written over a light grey rectangular background.

KENNETH TING
COMPANY SECRETARY
27 January 2010

TZ Limited
ACN 073 979 272
Annual General Meeting
Explanatory Memorandum

Important information

This Explanatory Memorandum has been prepared for the information of the shareholders of TZ Limited (the “**Company**”) in connection with the business to be conducted at the Annual General Meeting of the Company to be held at 10.00 am (Sydney time) on Friday 26 February 2010 at Press Room 2 & 3, Lower Ground Level, Radisson Plaza Hotel, Sydney, 27 O'Connell Street, Sydney, New South Wales.

The purpose of this Explanatory Memorandum is to provide information that the Directors believe to be material to shareholders in deciding whether or not to pass the resolutions set out in the Notice. **In particular, you should note that in the event that resolution 9 is not passed by the Company's shareholders, the QVT Funds may terminate the Term Sheet and demand repayment of all of the outstanding debt plus interest payable under the QVT Convertible Note Deed. If this were to occur, it is very likely that the Company would be rendered insolvent and would not be able to continue trading as a going concern. If so, it is then likely that the Company would be placed into voluntary administration and/or receivership and that, as a consequence, the Company's shareholders are highly unlikely to receive any value for their Shares.**

You should read this document carefully.

This Explanatory Memorandum, together with the Independent Expert's Report, and the accompanying Notice are important. You should read each document in its entirety before deciding how to vote on the resolutions at the Meeting. If you are in doubt as to what you should do, you should consult your financial, legal or other professional adviser.

No investment advice

This Explanatory Memorandum does not constitute financial product advice and it does not purport to contain all the information that a prospective investor may require in evaluating a possible investment in the Company. This Explanatory Memorandum has been prepared without taking account of any person's particular investment objectives, financial situation or needs.

Responsibility statement

Except as expressly set out below, this Explanatory Memorandum and the accompanying Notice have been prepared by the Company and are its responsibility alone.

The Company does not assume responsibility for the accuracy and completeness of the Independent Expert's Report, except to the extent any inaccuracy or incompleteness in that document arises directly from the inaccuracy or incompleteness of information given to the Independent Expert by or on behalf of the Company.

Except as expressly set out below, neither QVT Financial LP, any of the funds under its management (including the QVT Funds), QVT Associates GP LLC, any employee, director, partner, officer of them or any of their affiliates, nor their respective agents or advisers (“**QVT Parties**”) have authorised or caused the issue, submission, despatch or provision of the Explanatory Memorandum,

Notice or Independent Expert's Report, and, except as expressly set out below, no QVT Party makes or purports to make any statement in this Explanatory Memorandum and there is no statement in this Explanatory Memorandum which is based on any statement or information provided by any of them.

The QVT Funds have provided and are responsible for the QVT Information contained in this Explanatory Memorandum.

Other than in respect of the QVT Information, in which case responsibility for the accuracy and completeness thereof is limited to the QVT Funds, and to the maximum extent permitted by law, no QVT Party has any responsibility for, nor accepts any liability for, any loss arising from the use of the Explanatory Memorandum (including the QVT Information), Notice or Independent Expert's Report or its contents or otherwise arising in connection with it, including, without limitation, any liability arising from fault or negligence on their part.

To the maximum extent permitted by law, neither the Company nor any related body corporate, employee, director or officer of the Company nor their respective agents or advisors has any responsibility for the accuracy or completeness of the QVT Information.

Disclosures regarding forward looking matters

This Explanatory Memorandum contains certain forward looking statements. Forward looking statements can generally be identified by the use of forward looking words such as "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "will", "could", "may", "target", "plan" and other similar expressions within the meaning of securities laws of applicable jurisdictions. Indications of, and guidance on outlook or performance are also forward looking statements. The forward looking statements contained in this Explanatory Memorandum involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of the Company, and may involve significant elements of subjective judgment and assumptions as to future events which may or may not be correct. There can be no assurance that actual outcomes will not differ materially from these forward looking statements.

Role of ASIC and ASX

Copies of this Explanatory Memorandum and the accompanying Notice have been lodged with ASIC for the purposes of paragraph 74.62 of ASIC Regulatory Guide 74. Neither ASIC nor any of its officers take any responsibility for the contents of this Explanatory Memorandum and the Notice.

Copies of this Explanatory Memorandum and the Notice have been lodged with ASX for the purposes of Listing Rule 15.1.4. Neither ASX nor any of its officers take any responsibility for the contents of this Explanatory Memorandum and the Notice.

Glossary

Unless otherwise defined in this document, capitalised terms have the meaning set out in the Glossary at the end of this Explanatory Memorandum.

1. Resolution 1 – Re-election of Mark Bouris as Director

Mr Mark Bouris was appointed as an additional Director of the Company on 18 June 2009 by the Directors of the Company. Under the constitution of the Company, Mr Bouris is required to retire from office at the next annual general meeting following his appointment, however he is eligible for re-election and may by resolution of the Company be re-elected to that office.

Accordingly, at the Meeting, Mr Bouris will retire from office, however being eligible for re-election, offers himself for re-election as Director.

Mr Bouris has been involved in the finance and property sectors for over 25 years. In 1996 he founded Wizard Home Loans – Australia's largest non-bank lender. From 1996 to 2004 Mr Bouris introduced three substantial capital partners to his business, raising in excess of \$150,000,000 (\$150M). That money was raised with subscriptions from Publishing and Broadcasting Ltd, Deutsche Asset Management Ltd (representing the largest industry funds in Australia) and ABN Amro Bank. All of these entities became equal shareholders in the group holding company Australian Financial Investments Group Ltd. Each of the above shareholders had two board seats and Mr Bouris was executive chairman.

Australian Financial Investments Group Ltd made a major acquisition in 2002 from ABN Amro Bank when it acquired Australian Mortgage Securities Ltd (AMS). AMS was a global leader in issuance of Residential Mortgage Backed Securities raising in excess of \$10,000,000,000 (\$10BN) throughout its business life. Mr Bouris chaired that part of the business and attended the global road shows in raising those funds.

In 2004, General Electric acquired Australian Financial Investment Group Ltd, and its subsidiary company Wizard Home Loans Pty Ltd, from companies associated with Mr Bouris, Publishing and Broadcasting Ltd, Deutsche Asset Management Ltd and ABN Amro Ltd. Mr Bouris was retained as non-executive chairman by General Electric until February 2009 when his tenure terminated.

In July 2004 Mr Bouris was appointed Adjunct Professor (Banking & Finance and Business Law & Tax) at the University of NSW and also sits on the Australian School of Business Advisory Council Board. He is also an industry leader on consumer protection issues, having chaired the Federal Government's enquiry into E-Commerce and consumer protection in 2001.

Mr Bouris is the founder and Chairman of Yellow Brick Road (YBR), a financial advisory firm. The primary function of YBR is in its accounting division. YBR owns a number of accountancy practices and legal practices. In addition, it owns financial planning businesses and insurance broking businesses. YBR advises a range of clients from small business to large business in most aspects of finance, tax, fund raising, accounting standards, audit, forensic research, equity and share market activity. Mr Bouris is a fellow of the Institute of Chartered Accountants and YBR has 40 professionally qualified staff in its Sydney Head Office.

The Directors recommend that you vote in favour of resolution 1.

2. Resolution 2 – Re-election of Kenneth Ting as Director

Mr Kenneth Ting was appointed as an additional Director of the Company on 18 June 2009 by the Directors of the Company. Under the constitution of the Company, Mr Ting is required to retire from office at the next annual general meeting following his appointment, however he is eligible for re-election and may by resolution of the Company be re-elected to that office.

Accordingly, at the Meeting, Mr Ting will retire from office, however being eligible for re-election, offers himself for re-election as Director.

Mr Kenneth Ting has a background in accounting, law and investment banking with a focus on the commercialisation of technology and public and private equity raisings. Mr Ting joined Deutsche Bank in 1997 after 4 years at PricewaterhouseCoopers Corporate Finance and Tax division. He was Vice President of Technology Investment Banking at Deutsche Bank and worked in Deutsche Bank's Sydney, San Francisco and London offices.

Mr Ting has a passion for technology and has worked with technology companies throughout his career. He has been involved in the completion of over \$5 billion in M&A, private equity and IPO assignments in Australia, USA and Europe. His industry specialisation is in the electronic manufacturing, software, IT services, telecom and internet sectors.

Mr Ting holds a Bachelor of Commerce and Bachelor of Law with First Class Honours from Adelaide University and is a member of the Institute of Chartered Accountants. Mr Ting is currently an Associate Director of Nextec Strategic Capital, a Technology Investment Banking firm based in Sydney. He is also a Director of an international telecom company which he founded in 2002.

The Directors recommend that you vote in favour of resolution 2.

3. Resolution 3 – Re-election of Willem de Vlugt as Director

Mr Willem de Vlugt was appointed as an additional Director of the Company on 18 June 2009 by the Directors of the Company. In accordance with the Company's constitution he will retire by rotation from office at the Meeting, and being eligible, offers himself for re-election as a Director. Mr de Vlugt, being eligible, has offered himself for re-election as Director.

Mr Willem de Vlugt is an experienced Industrialist. Apart from a few years at Akso Nobel, he worked most of his life for Royal Packaging Industries Van Leer NV (17,000 people and 42 countries), which he listed on the Amsterdam Stock Exchange in 1996. For 17 years he worked in the USA, France, Argentina and Brazil. In 1988 he was promoted to the Executive Board and in 1991 to Chairman and CEO.

Mr de Vlugt took early retirement in 1999 and with some friends started Linx Telecom, a small data transfer and co-location company which, after an initial difficult start, is now very successful and has expanded all over Eastern Europe. Customers include Boeing, Microsoft, Deutsche Bank and HP.

Mr de Vlugt is the Chairman of Holland Venture BV and Chairman of ICT Automation NV, a public company which is listed on the Amsterdam Stock Exchange. He graduated in Law from Free University Amsterdam and attended various courses in Corporate Strategy at INSEAD and the Advanced Management Program at Harvard University.

The Directors recommend that you vote in favour of resolution 3.

4. Resolution 4 - Remuneration report

The annual report for the financial year ended 30 June 2009 contains a remuneration report which sets out the remuneration policies applicable to the Company and reports the remuneration arrangements that were in place for the Company's Directors and senior executives for the financial year ended 30 June 2009.

A reasonable opportunity will be provided for discussion of the remuneration report at the meeting before shareholders are asked to vote on resolution 4, to adopt the remuneration report.

The vote on the resolution is advisory only and does not bind the Directors or the Company. However, your Directors will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of the Company.

5. Resolution 5 - Re-appointment of auditor

Taylor & Co resigned as the Company's auditor effective from 21 December 2009. Your Directors appointed BDO Audit (NSW-VIC) Pty Limited as the Company's auditor pursuant to section 327C(1) of the Corporations Act to fill the vacancy created by the resignation of Taylor & Co. Under section 327C(2) of the Corporations Act, BDO Audit (NSW-VIC) Pty Limited can only hold office until the Company's next annual general meeting, although BDO Audit (NSW-VIC) Pty Limited is able to be re-elected as auditor at the Meeting if a shareholder of the Company gives written notice of the nomination of BDO Audit (NSW-VIC) Pty Limited for appointment as auditor.

A notice of nomination for appointment of BDO Audit (NSW-VIC) Pty Limited as auditor of the Company has been received by the Company before the Meeting was convened and a copy of the nomination is attached as Annexure B to this Explanatory Memorandum.

BDO Audit (NSW-VIC) Pty Limited has consented to be re-appointed as auditor of the Company.

Your Directors recommend that shareholders vote in favour of the re-appointment of BDO Audit (NSW-VIC) Pty Limited as auditor of the Company.

6. Resolution 6 - Approval of prior issues of convertible notes to TZ Resurgence Nominees Pty Limited

Background

Resolution 6 seeks shareholder approval of the issues of convertible notes to TZ Resurgence Nominees Pty Limited ("**Resurgence**") which took place in the last 12 months, for the purposes of Listing Rule 7.4 of the ASX Listing Rules. The following details of each such issue to Resurgence for which shareholder approval is sought are provided for the purposes of Listing Rule 7.5 of the ASX Listing Rules:

Date of issue	Number of convertible notes issued	Issue price per convertible note
16 July 2009	913,000	\$1.00
17 July 2009	365,000	\$1.00
29 July 2009	160,000	\$1.00
13 August 2009	80,000	\$1.00

In addition to the above details of convertible notes issued to Resurgence in the last 12 months, the Company advises that the use of the funds raised from each of those issues of convertible notes was for working capital purposes of the Company.

The terms of each of the convertible notes issued to Resurgence are:

- Interest accrues on each convertible note at 10% per annum, calculated on the outstanding principal amount (of \$1.00 per convertible note) and payable annually in arrears or on the date the convertible note is redeemed.

- The convertible notes are required to be repaid on 15 July 2010 unless converted into ordinary shares of the Company.
- The convertible notes are convertible into that number of ordinary shares in the Company equal to the face value of the convertible notes (\$1.00) plus all outstanding interest divided by the lower of \$1.00 and the lowest price at which any ordinary shares may be issued by the Company after 15 July 2009 and prior to conversion.
- The Company may voluntarily redeem the convertible notes by giving 45 days written notice to a noteholder for an amount equal to the principal outstanding on the convertible notes, plus all accrued and unpaid interest ("**Redemption Amount**").
- Subject to the rights of the QVT Funds, which rights are outlined below, upon the occurrence of any of the events of default set out in the convertible note deed under which the convertible notes have been issued (the "**Series II Convertible Note Deed**"), a noteholder may either require the immediate redemption of the convertible notes by the Company for the Redemption Amount or elect to convert all or any of the convertible notes it holds into ordinary shares in the Company.
- In the event of the occurrence of an event of default under the Series II Convertible Note Deed, before any noteholder (other than the QVT Funds or their nominee) (a "**Non QVT Noteholder**") can require the redemption or conversion of any convertible notes held by it, a Non QVT Noteholder must first notify the QVT Funds and the QVT Funds will then have the right to buy the relevant convertible notes the subject of the notification at the then Redemption Amount of those convertible notes.
- The QVT Funds have a pre-emptive right to buy any convertible notes that any Non QVT Noteholder wishes to transfer.
- The convertible notes issued to Resurgence were, at the time they were first issued to Resurgence, secured by a first ranking charge over all of the assets of the Company other than the Company's shares in its subsidiaries Product Development Technologies Inc. and PDT Holdings, Inc. The first ranking charge granted in favour of Resurgence was released in full with the consent of all parties on 2 November 2009. (However, on 13 October 2009 the Company granted a charge (which is now a first ranking charge) in favour of Sydcomp Pty Limited over the same assets as were secured under the charge granted in favour of Resurgence. The charge granted in favour of Sydcomp secures the repayment of all amounts owing or which may become owing by the Company to Sydcomp in respect of convertible notes issued by the Company to Sydcomp or in respect of convertible notes which are otherwise acquired by Sydcomp.)

Effect of approval

In general terms, Listing Rule 7.1 of the ASX Listing Rules imposes a 15% cap on the number of equity securities (including convertible notes) that can be issued by the Company, without the approval of shareholders (or an ASX waiver), in any 12 month period ("**15% limit**"). However, the Company is permitted to issue equity securities (which includes convertible notes as well as shares and options to acquire shares) in excess of the 15% limit if those equity securities are issued in reliance on an exception to Listing Rule 7.1 or the issue is approved by shareholders (or an ASX waiver is obtained). Listing Rule 7.4 enables shareholders to subsequently approve the issue of such equity securities for the purposes of Listing Rule 7.1.

The effect of the approval by shareholders of resolution 6 would be that the convertible notes set out in the above table, which have been issued by the Company in the last 12 months to Resurgence, will

not count towards the 15% limit. A consequence of the approval would also be that these convertible notes would increase the number of equity securities from which the 15% limit is calculated.

The Directors consider that it is appropriate and prudent for approval to be sought at the Meeting in respect of the convertible notes issued to Resurgence and referred to in the above table, as this approval will enhance the Company's ability to raise further equity capital to fund the Company's ongoing working capital requirements. The Directors believe that it is in the best interests of the Company that the Directors maintain their ability to issue up to 15% of the issued capital of the Company over the next 12 months.

The Directors recommend that you vote in favour of resolution 6.

7. Resolution 7 - Approval of prior issues of convertible notes to Sydcomp Pty Limited

Background

Resolution 7 seeks shareholder approval of the issues of convertible notes to Sydcomp Pty Limited ("**Sydcomp**") which took place in the last 12 months, for the purposes of Listing Rule 7.4 of the ASX Listing Rules. The following details of each such issue to Sydcomp for which shareholder approval is sought are provided for the purposes of Listing Rule 7.5 of the ASX Listing Rules:

Date of issue	Number of convertible notes issued	Issue price per convertible note
13 October 2009	175,000	\$1.00
15 October 2009	133,000	\$1.00
22 October 2009	155,000	\$1.00
10 November 2009	975,000	\$1.00
11 December 2009	355,000	\$1.00
24 December 2009	550,000	\$1.00

In addition to the above details of the relevant issues of convertible notes issued to Sydcomp in the last 12 months, the Company advises that the use of the funds raised from each of those issues of convertible notes was for working capital purposes of the Company.

The terms of each of the convertible notes issued to Sydcomp are:

- Interest accrues on each convertible note at 10% per annum, calculated on the outstanding principal amount (of \$1.00 per convertible note) and payable annually in arrears or on the date the convertible note is redeemed.
- The convertible notes are required to be repaid on 15 July 2010 unless converted into ordinary shares of the Company.
- The convertible notes are convertible into that number of ordinary shares in the Company equal to the face value of the convertible notes (\$1.00) plus all outstanding interest divided by the lower of \$1.00 and the lowest price at which any ordinary shares may be issued by the Company after 15 July 2009 and prior to conversion.
- The Company may voluntarily redeem the convertible notes by giving 45 days written notice to a noteholder for an amount equal to the principal outstanding on the convertible notes, plus all accrued and unpaid interest ("**Redemption Amount**").

- Subject to the rights of the QVT Funds, which rights are outlined below, upon the occurrence of any of the events of default set out in the Series II Convertible Note Deed under which the convertible notes have been issued, a noteholder may either require the immediate redemption of the convertible notes by the Company for the Redemption Amount or elect to convert all or any of the convertible notes it holds into ordinary shares in the Company. (The Series II Convertible Note Deed sets out the terms of issue of the convertible notes issued to both Resurgence and to Sydcomp).
- In the event of the occurrence of an event of default under the Series II Convertible Note Deed, before any noteholder (other than the QVT Funds or their nominee) (a "**Non QVT Noteholder**") can require the redemption or conversion of any convertible notes held by it, a Non QVT Noteholder must first notify the QVT Funds and the QVT Funds will then have the right to buy the relevant convertible notes the subject of the notification at the then Redemption Amount of those convertible notes.
- The QVT Funds have a pre-emptive right to buy any convertible notes that any Non QVT Noteholder wishes to transfer.
- The repayment by the Company of all outstanding principal and interest under the convertible notes issued to Sydcomp (and any convertible notes that Sydcomp may otherwise acquire) is secured by a first ranking charge over all of the assets of the Company other than the Company's shares in its subsidiaries Product Development Technologies Inc. and PDT Holdings, Inc.

Effect of approval

In general terms, Listing Rule 7.1 of the ASX Listing Rules imposes a 15% cap on the number of equity securities (including convertible notes) that can be issued by the Company, without the approval of shareholders (or an ASX waiver), in any 12 month period ("**15% limit**"). However, the Company is permitted to issue equity securities (which includes convertible notes as well as shares and options to acquire shares) in excess of the 15% limit if those equity securities are issued in reliance on an exception to Listing Rule 7.1 or the issue is approved by shareholders (or an ASX waiver is obtained). Listing Rule 7.4 enables shareholders to subsequently approve the issue of such equity securities for the purposes of Listing Rule 7.1.

The effect of the approval by shareholders of resolution 7 would be that the convertible notes set out in the above table, that have been issued by the Company in the last 12 months to Sydcomp, will not count towards the 15% limit. A consequence of the approval would also be that these convertible notes would increase the number of equity securities from which the 15% limit is calculated.

The Directors consider that it is appropriate and prudent for approval to be sought at the Meeting in respect of the convertible notes issued to Sydcomp and referred to in the above table, as this approval will enhance the Company's ability to raise further equity capital to fund the Company's ongoing working capital requirements. The Directors believe that it is in the best interests of the Company that the Directors maintain their ability to issue up to 15% of the issued capital of the Company over the next 12 months.

The Directors recommend that you vote in favour of resolution 7.

8. Resolution 8 - Approval of prior issue of shares and options to Moon Corporation Pty Limited

Background

Resolution 8 seeks shareholder approval of the issue of 1,000,000 ordinary class shares in the Company (the "**Moon Shares**") at an issue price of \$1.00 per Moon Share to Moon Corporation Pty Limited ("**Moon Corporation**") which took place on 15 June 2009 and of the issue of 1,000,000 options (the "**Moon Options**") to subscribe for 1,000,000 fully paid ordinary shares in the Company at an exercise price of \$0.75 per share which Moon Options were issued for nil consideration to Moon Corporation on 15 June 2009, for the purposes of Listing Rule 7.4 of the ASX Listing Rules.

In addition to the above details of the issue of the Moon Shares and Moon Options to Moon Corporation, the Company advises that the use of the funds raised from the issue was to raise working capital to fund product expansion.

The terms of the Moon Shares issued to Moon Corporation were fully paid ordinary shares in the Company, ranking equally with other fully paid ordinary shares in the Company.

The terms of the Moon Options issued to Moon Corporation are:

- Each Moon Option entitles the holder, when exercised, to one fully paid ordinary share in the Company.
- The Moon Options have an expiry date of 15 June 2010. A Moon Option not exercised by the expiry date will lapse.
- Each Moon Option can be exercised at any time before the expiry date.
- The exercise price to convert each Moon Option into ordinary shares is \$0.75.
- The Moon Options will not be listed on the Australian Securities Exchange. The Company will seek quotation of the shares issued on exercise of the Moon Options.
- If any reconstruction of the issued capital of the Company takes place (including any consolidation or division of shares or reduction or return of capital), the number of Moon Options and the exercise price of the Moon Options will be reconstructed in accordance with the ASX Listing Rules so as to reflect the reconstruction of the issued ordinary share capital of the Company, but so that no additional benefits are conferred on the holder of the Moon Options.

Effect of approval

In general terms, Listing Rule 7.1 of the ASX Listing Rules imposes a 15% cap on the number of shares and options to acquire shares that can be issued by the Company, without the approval of shareholders (or an ASX waiver), in any 12 month period ("**15% limit**"). However, the Company is permitted to issue shares and options to acquire shares in excess of the 15% limit if those shares and options are issued in reliance on an exception to Listing Rule 7.1 or the issue is approved by shareholders (or an ASX waiver is obtained). Listing Rule 7.4 enables shareholders to subsequently approve the issue of such shares and options for the purposes of Listing Rule 7.1.

The effect of the approval by shareholders of resolution 8 would be that the Moon Shares and Moon Options that have been issued by the Company to Moon Corporation, will not count towards the 15%

limit. A consequence of the approval would also be that the Moon Shares and Moon Options would increase the number of equity securities from which the 15% limit is calculated.

The Directors consider that it is appropriate and prudent for approval to be sought at the Meeting in respect of the Moon Shares and Moon Options issued to Moon Corporation, as this approval will enhance the Company's ability to raise further equity capital to fund the Company's ongoing working capital requirements. The Directors believe that it is in the best interests of the Company that the Directors maintain their ability to issue up to 15% of the issued capital of the Company over the next 12 months.

The Directors recommend that you vote in favour of resolution 8.

9. Resolution 9 – Approval of issue of shares to QVT Funds

Background

As announced by the Company on 18 June 2009, as a consequence of the Company failing to pay the 2008 Interest Payment to the QVT Funds on 31 December 2008, the Company had defaulted and become liable to pay to the QVT Funds the whole of the principal of \$24,000,000, the 2008 Interest Payment and compound interest on the aggregate of these amounts at the default interest rate of 12% per annum in accordance with the terms of the QVT Convertible Note Deed.

As announced by the Company on 18 September 2009, the Company and the QVT Funds entered into the Term Sheet pursuant to which the Company and the QVT Funds agreed on a workout plan for the payment of the 2008 Interest Payment, the 2009 Interest Payment and part of the principal owing under the QVT Convertible Note Deed.

Under the Term Sheet, the QVT Funds waived their right to claim further interest from the Company that would have otherwise been payable to the QVT Funds as a result of the Company's failure to pay the 2008 Interest Payment and, if not paid on 31 December 2009, the 2009 Interest Payment. Without this concession from the QVT Funds, the amount of interest that would have otherwise been payable to the QVT Funds under the QVT Convertible Note Deed would have been substantially greater, as the Company would have been required to pay compound interest at the default interest rate of 12% per annum on the 2008 Interest Payment and on the 2009 Interest Payment. More importantly, without the Term Sheet having been entered into, the Directors would have had no alternative but to put the Company into voluntary administration.

The Term Sheet has the effect of amending some of the terms of the QVT Convertible Note Deed. In particular, the conversion ratio at which the QVT Convertible Notes are converted into Shares has been reduced from \$4.00 per Share to \$1.00 and \$1.20, as the case may be, as set out in the summary of the material terms of the Term Sheet referred to below. This has the effect of increasing the number of Shares in the Company which the QVT Funds are entitled to receive on conversion of the QVT Convertible Notes.

Summary of Term Sheet

A summary of the material terms of the Term Sheet agreed between the Company and the QVT Funds is set out as follows. A summary of the material terms of the QVT Convertible Note Deed is set out in the Company's Notice of General Meeting dated 3 January 2008 (a copy of which is available on request from the Company).

1. Subject to the conditions set out in item 2 below:

- (a) The QVT Funds agree to convert in aggregate 12,000 QVT Convertible Notes (with an aggregate face value of \$12 million), being half of the QVT Funds' aggregate present holding of QVT Convertible Notes (the “**First Half**”), into ordinary shares in the Company at a conversion price equal to the lesser of \$1.00 per share and the lowest issue price of any new issue of shares, agreed to be issued, or issued, by the Company after 14 September 2009 and on or before the date of issue of the relevant conversion notice by the QVT Funds (the “**First Conversion Price**”). (As it is not proposed for the Company to issue any Shares prior to the date of the QVT Funds' conversion notice in respect of the First Half of QVT Convertible Notes, approval is sought from shareholders under item 7 of section 611 of the Corporations Act at the First Conversion Price of \$1.00.)
- (b) The remaining 12,000 QVT Convertible Notes held by the QVT Funds (with an aggregate face value of \$12 million) (the “**Second Half**”) will remain on issue subject to the terms of the QVT Convertible Note Deed, except that the QVT Funds and the Company have agreed that the conversion price in relation to the Second Half of the QVT Convertible Notes is amended to be 120% of the First Conversion Price, namely \$1.20 per Share, subject to adjustment in accordance with the terms of the QVT Convertible Note Deed (the “**Second Conversion Price**”).
- (c) The Company agrees to issue the QVT Funds in aggregate with that number of Shares equal to A/B where B is the First Conversion Price (\$1.00) and A is the aggregate of:
- (i) the 2008 Interest Payment and the 2009 Interest Payment in full and final satisfaction of the Company's obligation to pay the 2008 Interest Payment and the 2009 Interest Payment to the QVT Funds in accordance with the QVT Convertible Note Deed;
 - (ii) the amounts paid by the QVT Funds to their Australian lawyers in connection with the issue of default notices by the QVT Funds to the Company relating to the failure to pay the 2008 Interest Payment, the QVT Funds' consent to the issue of Series II Convertible Notes to Resurgence and Sydcomp and the QVT Funds' consent to the issue of any further convertible notes that may be issued by the Company which require the consent of the QVT Funds under the QVT Convertible Note Deed and the preparation, negotiation and execution of the Term Sheet and the documents contemplated by the Term Sheet, up to a maximum amount of \$400,000; and
 - (iii) to the extent the Company has not been able to repay the QVT Funds those amounts of money which the QVT Funds have paid on behalf of the Company in connection with, amongst other things, the engagement of forensic accountants and lawyers to investigate and report on the financial position of the Company and to assist in the recovery of moneys that may be due and payable to the Company, that outstanding balance.
- (d) All Shares to be issued in accordance with paragraphs (a), (b) and (c)(i) (but not paragraphs (c)(ii) and (iii)) shall be subject to a 12 month escrow from the respective date of issue of the Shares, meaning that the QVT Funds are not permitted to transfer any shares issued in accordance with those paragraphs within the first 12 months of their issue date. (The effect of this escrow

arrangement means that any Shares that may be issued to the QVT Funds under resolutions 9(a) to (d) will be subject to a 12 month escrow, but any of the up to 2,000,000 Shares that may be issued under resolution 9(e) will not be subject to any escrow.)

2. The agreement of the QVT Funds and the Company under the Term Sheet is conditional on and subject to various conditions being satisfied or waived by the QVT Funds in writing, including the following conditions:
 - (a) the Company obtaining all shareholder, regulatory or other third party approvals or consents that are required;
 - (b) no material adverse event, event of default or claim that could reasonably be expected to constitute a material adverse event occurring under the terms of the QVT Convertible Note Deed; and
 - (c) approval being received by the Company from ASX indicating that it will grant official quotation to any Shares to be issued to the QVT Funds under the Term Sheet.

If the conditions (including the requirement for shareholder approval) are not satisfied by 28 February 2010 (or such later date as agreed by the QVT Funds), the Term Sheet will terminate and the consequences described below under “*Consequences of resolution 9 not being passed by TZL shareholders*” may arise.

The effect of the Term Sheet is that the QVT Funds have agreed with the Company to extend the term of the moratorium period applying to the repayment of all principal and interest owing under the QVT Convertible Note Deed to 1 March 2010 (or any earlier date on which the Term Sheet may be terminated).

On 7 January 2010, 1,131,250 Shares were issued by the Company to QVT Fund LP and 118,750 Shares were issued by the Company to Quintessence Fund L.P., being a total of 1,250,000 Shares. In each case the Shares were issued to Deutsche Bank AG London as custodian for QVT Fund LP and Quintessence Fund L.P.. The Shares were issued fully paid at \$1.00 per Share in satisfaction of the Company's liability to pay \$381,560.73 to the QVT Funds in respect of fees incurred by the QVT Funds to their Australian lawyers (referred to in item 1(c)(ii) above) and in satisfaction of the Company's liability to repay \$868,439.27 of the funds that the QVT Funds have paid on behalf of the Company since July 2009 (referred to in item 1(c)(iii) above). The issue of the 1,250,000 Shares to the QVT Funds on 7 January 2010 did not require any shareholder approval.

For the reasons outlined below, the issue of further Shares to the QVT Funds under the terms of the Term Sheet requires the prior approval of shareholders of the Company under item 7 section 611 of the Corporations Act.

Consequences of resolution 9 not being passed by TZL shareholders

In the event that resolution 9 is not passed by the Company's shareholders by 28 February 2010 (or such later date as agreed by the QVT Funds) then the Term Sheet may be immediately terminated at any time by the QVT Funds. The consequence of the termination of the Term Sheet is that the moratorium on the requirement of the Company to repay the outstanding debt of \$24,000,000 and all unpaid interest owing under the QVT Convertible Note Deed (including the 2008 Interest Payment and 2009 Interest Payment) will cease and the QVT Funds would have the right to:

- immediately issue a default notice in respect of the Company's failure to pay the 2008 Interest Payment, the 2009 Interest Payment and the principal of \$24,000,000, plus compound interest at the default rate under the terms of the QVT Convertible Note Deed;
- commence legal proceedings against the Company to enforce any default notice issued by the QVT Funds; and
- increase the interest rate applicable to the QVT Convertible Notes from 10% per annum to 12% per annum.

Shareholders should note that in the event that resolution 9 is not passed by the Company's shareholders, the QVT Funds may terminate the Term Sheet and demand repayment of all of the outstanding debt plus interest payable under the QVT Convertible Note Deed.

If this occurs, it is very likely that the Company would be rendered insolvent and would not be able to continue trading as a going concern.

If so, it is then likely that the Company would be placed into voluntary administration and/or receivership and that, as a consequence, the Company's shareholders are highly unlikely to receive any value for their Shares.

Section 611 of the Corporations Act

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to 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 company increases:

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

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

A person ("second person") will be an "associate" of the other person ("first person") in connection with a company if:

- (a) the first person is a body corporate and the second person is:
 - (i) a body corporate the first person controls;
 - (ii) a body corporate that controls the first person; or
 - (iii) a body corporate that is controlled by an entity that controls the first person;
- (b) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- (c) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to company affairs.

A person has a relevant interest in securities of a company if they:

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

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

There are various exceptions to the prohibition contained in section 606(1) of the Corporations Act including under item 7 section 611 of the Corporations Act. Item 7 provides an exception to the prohibition in section 606(1) of the Corporations Act in circumstances where the shareholders of the company in general meeting pass a resolution approving an acquisition of shares in the company by virtue of an allotment or acquisition and no votes are cast by parties involved in the proposed acquisition, including their associates.

At the date of the Notice the Company has 50,729,325 Shares on issue, of which 1,250,000, or 2.46% of the total number of Shares on issue, are held by Deutsche Bank AG London as custodian for the QVT Funds.

As stated above, if resolution 9 is passed, the QVT Funds will convert a total of 12,000 QVT Convertible Notes into Shares at an issue price of \$1.00 each and may elect to convert a total of 12,000 of the QVT Convertible Notes into Shares at an issue price of \$1.20 each under the terms of the QVT Convertible Note Deed. In addition, the QVT Funds will be entitled to have the outstanding 2008 Interest Payment and 2009 Interest Payment converted into Shares at an issue price of \$1.00 each and to have up to \$2,000,000 of outstanding debt converted into Shares at an issue price of \$1.00 each. Should resolution 9 be passed and all the Shares contemplated by the Proposal are issued to the QVT Funds, the relevant interest of the QVT Funds in Shares on issue may exceed 20% of the total number of Shares on issue. For example, if immediately after resolution 9 is passed the maximum number of Shares contemplated by the Proposal are issued to the QVT Funds and there is no other issue of Shares by the Company between the date of the Notice and the date of the Meeting, the QVT Funds would hold a maximum of 29,863,333 Shares or 37.64% of the Shares on issue assuming no other acquisition or disposal of Shares by the QVT Funds after the date of the Notice. (Please note however that, as set out in "Summary of Term Sheet" above, the QVT Funds are not required to convert the Second Half of 12,000 QVT Convertible Notes into Shares under the QVT Convertible Note Deed and, accordingly, their holdings of Shares may be less than 29,863,333 Shares.) Accordingly the voting power of the QVT Funds in the Company in this circumstance would increase from a starting point below 20% to above 20%.

For shareholders to consider a resolution approving an acquisition of shares in accordance with item 7 section 611 of the Corporations Act, shareholders must be provided with all information known to the company or known to the proposed allottee of shares (and each of their associates) that is material to the decision on how to vote on the resolution including:

- the identity of the person proposing to make the acquisition and their associates;
- the maximum extent of the increase in that person's voting power in the company that would result from the acquisition;
- the voting power that person would have as a result of the acquisition;

- the maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition; and
- the voting power that each of that person's associates would have as a result of the acquisition.

Specific information required by Item 7 of Section 611 of the Corporations Act and ASIC Regulatory Guide 74

In addition to the information required to be provided to shareholders as specified in item 7 of section 611 of the Corporations Act, ASIC Regulatory Guide 74 also specifies information that is to be provided to shareholders where their approval to a proposed issue of shares in a company is sought. Accordingly, the following information is provided regarding the proposed issue of Shares to the QVT Funds under the Proposal.

Identity of persons who will acquire relevant interests in Shares issued as a result of the Proposal

If the Company's non associated shareholders approve resolution 9, TZL will issue Shares to Deutsche Bank AG London as custodian for the QVT Funds as a result of the Proposal.

Deutsche Bank AG London will hold the Shares as custodian for the QVT Funds and therefore under section 609(2) of the Corporations Act, Deutsche Bank AG London will not have a relevant interest in any of the Shares. Rather, the QVT Funds, on behalf of whom the Shares are held by Deutsche Bank AG London, will have the power to control disposal of the Shares and will therefore have a relevant interest in the Shares for the purposes of section 608 of the Corporations Act.

In addition:

- QVT Financial LP is the investment manager to the QVT Funds and, as such, has the power to control the disposal of Shares by the QVT Funds and will have a relevant interest in all of the Shares issued to the QVT Funds; and
- QVT Associates GP LLC is the general partner of the QVT Funds and, as such, has the power to control the disposal of Shares by the QVT Funds and will have a relevant interest in all of the Shares issued to the QVT Funds.

No shareholder of the Company is an associate of the QVT Funds.

QVT Financial LP, QVT Associates GP LLC, the QVT Funds and the entities that they control are the only persons who will acquire a relevant interest in Shares in the Company as a result of the QVT Funds acquiring Shares under the Proposal.

Effect that the issue of Shares as a result of the Proposal will have on the voting power of the QVT Funds

At the date of the Notice, Deutsche Bank AG London as custodian for the QVT Funds holds 1,250,000 Shares comprising 2.46% of the Shares on issue as at the date of the Notice.

The precise voting power that the QVT Funds will have as a result of the issue of Shares under the Proposal depends on a number of factors (some of which the QVT Funds and their associates have no ability to determine or control). These factors include:

- (a) The number of QVT Convertible Notes which are converted.
- (b) The time at which the QVT Convertible Notes are converted.

- (c) The extent to which and when Series II Convertible Notes are converted into Shares.
- (d) Whether any interest that accrues on the QVT Convertible Notes for any period commencing on or after 1 January 2010 is converted into Shares.

There are factors in addition to those set out above which will impact the extent of voting power that the QVT Funds and their associates would have as a result of the Proposal, including any share issues that the Company makes in the period prior to the issue of all Shares as contemplated by the Proposal.

Accordingly at this time it is not possible to determine with specificity:

- (i) the actual number of Shares and voting power in the Company which the QVT Funds will hold either before or after the completion of the Proposal;
- (ii) the precise extent of the increase in the QVT Funds' voting power in the Company as a result of the Proposal.

ASIC has granted relief from items 7(b)(iii) and 7(b)(v) of section 611 of the Corporations Act so that the Company need only disclose in this Explanatory Memorandum the maximum voting power that the QVT Funds and their associates would have (and the maximum increase in that voting power) as a result of the Proposal. This relief has been granted on the condition that the Shares described in resolution 9 are issued to the QVT Funds no later than 26 May 2011 (being 15 months after the date of the Annual General Meeting).

As noted in the section entitled "Summary of Term Sheet" above, all Shares to be issued under the Proposal and described in resolution 9 will be issued to the QVT Funds within 7 days of the passing of resolution 9 other than:

- (i) the Shares to be issued on conversion of the Second Half of the QVT Convertible Notes described in resolution 9 (b), which may be issued at any time on conversion of the QVT Convertible Notes in accordance with the QVT Convertible Note Deed; and
- (ii) the Shares to be issued on conversion of the unsecured loans owed to the QVT Funds described in resolution 9 (e), which are expected to be issued at any time up until 30 June 2010.

However, shareholders are reminded that the contractual entitlement of the QVT Funds under the QVT Convertible Note Deed is to demand conversion of the Second Half of the QVT Convertible Notes into Shares at any time up to the maturity date of the QVT Convertible Notes, 19 February 2013. Although further shareholder approval for the purposes of item 7 of section 611 of the Corporations Act would be needed if the QVT Funds wish to convert any of the Second Half of the QVT Convertible Notes after 26 May 2011 in circumstances where an issue of Shares to the QVT Funds would otherwise be in breach of section 606(1) of the Corporations Act, shareholders are advised that the Company will be in default under the QVT Convertible Note Deed if the Company does not obtain this subsequent shareholder approval to extend the permissible date for an issue of Shares to the QVT Funds on conversion of the Second Half of the QVT Convertible Notes past 26 May 2011 and up to 19 February 2013. It is the intention of the Company to seek such further shareholder approval for the issue of Shares to the QVT Funds at its 2010 Annual General Meeting (as well as any other relief required by ASIC).

Notwithstanding that the Company has obtained the above relief from ASIC, it is possible to provide some guidance as to the effect which the Proposal would have on the QVT Funds' voting power in the Company based on certain stated assumptions, including the maximum extent of the increase in the QVT Funds' voting power in the Company based on these stated assumptions. However in

making such assumptions the Company is making no forecast or prediction that the assumptions will be correct.

Table 1 below sets out the maximum number of Shares that may be issued to the QVT Funds as a result of the approval of resolution 9 by the shareholders of the Company:

Table 1:

Debt to be converted/capitalised	Number of Shares to be issued to QVT Funds
<ul style="list-style-type: none"> • Conversion of First Half of QVT Convertible Notes 	12,000,000
<ul style="list-style-type: none"> • Conversion of Second Half of QVT Convertible Notes 	10,000,000
Conversion/capitalisation of: <ul style="list-style-type: none"> • 2008 Interest Payment • 2009 Interest Payment • Other outstanding debt owed by the Company to the QVT Funds 	2,213,333 2,400,000 2,000,000
Total	28,613,333

Table 1 assumes that all of the Second Half of the QVT Convertible Notes are converted into Shares and that debt of \$2,000,000 becomes owing to the QVT Funds and is converted into Shares.

The following table 2 indicates the maximum increase in voting power of QVT Funds and their associates that could arise as a result of the approval of resolution 9 by the shareholders of the Company:

Table 2:

	Existing shareholding	Proposed maximum issue of shares	Shareholding post implementation
QVT Funds' total number of Shares	1,250,000	28,613,333	29,863,333
Other shareholders' total number of Shares	49,479,325	-	49,479,325
Total number of Shares on issue	50,729,325		79,342,658
QVT Funds' Voting power	2.46%		37.64%

Table 2 indicates that the maximum voting power that the QVT Funds (and their associates) will have as a result of the approval of resolution 9 will be 37.64%, which is a maximum increase of 35.18% (from 2.46%).

However, table 2 assumes that none of the Series II Convertible Notes have been converted into Shares. If all the 3,861,000 Series II Convertible Notes on issue at the date of the Notice are converted into Shares at \$1.00 per Share (and assuming no other Shares are issued by the Company)

and if the maximum number of Shares are issued to the QVT Funds under the Proposal, then the total number of Shares on issue in the Company will increase to 83,203,658 Shares and the maximum voting power of the QVT Funds and their associates would reduce from 37.64% to 35.89%.

The issue of Shares to the QVT Funds and the conversion of the First Half and Second Half of the QVT Convertible Notes will cause the QVT Funds' voting power in the Company to increase from less than 20% to more than 20% and therefore shareholder approval is required in accordance with item 7 of section 611 of the Corporations Act.

The identity, associations and qualifications of any person who is intended to become a Director if resolution 9 is passed

Under the Term Sheet, the QVT Funds have the right to appoint one person to be a Director of the Company. Currently, there is no proposal by the QVT Funds or the Company for an additional Director to be appointed to the Board if resolution 9 is passed.

QVT Funds' intentions for the future of the Company if the acquisition of Shares as a result of the Proposal is approved

If the Proposal is approved by shareholders and the Shares contemplated by the Proposal are issued to the QVT Funds, the QVT Funds will be a substantial shareholder and creditor of the Company, with a significant economic interest in the future success and growth of the Company's business. The QVT Funds have indicated to the Company that their current intentions for the Company's future and its shareholding in the Company are as follows.

You should note that, while the QVT Convertible Notes remain on issue, the QVT Funds have indicated to the Company that they reserve their rights under the QVT Convertible Note Deed in their absolute discretion. None of the following statements of intention amount to a representation, warranty, guarantee, agreement or otherwise by the QVT Funds in relation to their rights under or in connection with the QVT Convertible Note Deed.

(a) ***Company's businesses***

The QVT Funds intend to support the current Directors and management of the Company to strengthen the Company's financial and operating position.

The QVT Funds have no current intention to seek to change the principal activities or business of the Company.

(b) ***Company's capital requirements***

The QVT Funds do not have any current intention to inject further capital into the Company, but the QVT Funds may commit to injecting further capital as investment opportunities arise and as the needs of the Company develop.

(c) ***Future employment of Company's present employees***

The QVT Funds are supportive of the Company's current Board and management team. Any change in the Company's present employees is a matter for the decision of the Board and management of the Company. The QVT Funds are not represented on the Company's Board or management and, as such, will not be involved in, nor are the QVT Funds seeking, any change to the Company's employees.

(d) ***Transfer of property between the QVT Funds and Company and redeployment of Company's assets***

Except in connection with the QVT Convertible Note Deed, Term Sheet or the Series II Convertible Note Deed, the QVT Funds are not aware of any proposal whereby any property will be transferred between the Company and the QVT Funds, or any person associated with the QVT Funds. Additionally, the QVT Funds have no current intention to seek the redeployment of the assets of the Company.

(e) ***Company's financial and dividend policies***

The QVT Funds do not have any current intention to seek to change the Company's existing financial or dividend policies.

The above statements are made based on the present intentions of the QVT Funds on the basis of the facts and information concerning the Company and the existing circumstances that affect the Company as known to the QVT Funds at the date of the Notice. Accordingly, the intentions of the QVT Funds set out above may change as new information becomes available or circumstances change.

Other information

Except as disclosed in the Notice and this Explanatory Memorandum, there is no other information material to a shareholder's decision on how to vote on resolution 9 known to the Directors.

Directors' Recommendations

Each of the Directors of the Company are independent of and not an associate of the QVT Funds and are independent of the subject matter of resolution 9.

The Directors are:

Mark Bouris

Kenneth Ting

Willem de Vlugt.

Each of those Directors has considered the Independent Expert's Report and believes that the approval by shareholders of the Proposal will be in the best interests of the Company and the non associated shareholders of the Company for the following reasons:

- The Independent Expert, Lonergan Edwards & Associates Limited has concluded that the Proposal is fair and reasonable to the non associated shareholders of the Company.
- The conversion of the QVT Convertible Notes as a result of the Proposal will allow the Company to replace the existing, relatively expensive (but arm's length) debt funding provided by the QVT Funds with equity if the Proposal is approved.
- The Proposal, if approved by the Company's shareholders, will allow the Company to avoid the potential consequences of an end to the moratorium on the debts owed to the QVT Funds, which would otherwise likely result in the insolvency of the Company and, in turn, would result in the Company's shareholders recovering little, if any, value for their investment in the Company's Shares.
- Approval of the Proposal will allow the Company to avoid an increase by 2% per annum in the interest rate applicable to the QVT Convertible Notes from 1 March 2010.

- The ability of the QVT Funds to increase its holding of Shares as a result of the Proposal is considered to be likely to strengthen the relationship between the QVT Funds and the Company which may have resulting benefits for the Company.

Each of the Directors:

- (a) approved the proposal to put resolution 9 to the Company's shareholders and recommends that shareholders vote in favour of the resolution; and
- (b) intends to vote in favour of resolution 9 in respect of any Shares which he holds or controls.

Independent Expert's Report

The accompanying Independent Expert's Report appearing as Annexure "A" prepared by Lonergan Edwards & Associates Limited sets out a detailed examination of the Proposal to enable shareholders to assess the merits and decide whether to approve the Proposal.

The Independent Expert's Report sets out further information with respect to the Proposal and concludes that the Proposal is fair and reasonable to the shareholders of the Company not associated with the QVT Funds.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodologies used and the sources of information and assumptions made.

10. Resolution 10 – Reorganisation of QVT Convertible Notes

As announced by the Company on 18 June 2009, as a consequence of the Company failing to pay the 2008 Interest Payment to the QVT Funds on 31 December 2008, the Company was in default and had become liable to pay to the QVT Funds the whole of the principle of \$24,000,000, the 2008 Interest Payment and compound interest on the aggregate of these amounts at the default interest rate of 12% per annum in accordance with the QVT Convertible Note Deed.

As announced by the Company on 18 September 2009, the Company and the QVT Funds entered into the Term Sheet pursuant to which the Company and the QVT Funds agreed on a workout plan for the payment of the 2008 Interest Payment, the 2009 Interest Payment and part of the principal owing under the QVT Convertible Note Deed.

Subject to the terms and conditions of the Term Sheet, the QVT Funds have agreed to waive their right to claim further interest from the Company that would have otherwise been payable to QVT as a result of the Company's failure to pay the 2008 Interest Payment and, if not paid on 31 December 2009, the 2009 Interest Payment. Without this concession from the QVT Funds, the amount of interest that would have otherwise been payable to the QVT Funds under the QVT Convertible Note Deed would have been substantially greater, as the Company would have been required to pay compound interest at the default interest rate of 12% per annum on the 2008 Interest Payment and on the 2009 Interest Payment. More importantly, without the Term Sheet having been entered into, the Directors would have had no alternative but to put the Company into voluntary administration.

The Term Sheet has the effect of amending some of the terms of the QVT Convertible Note Deed. In particular, the conversion ratio at which the QVT Convertible Notes are converted into Shares has been reduced from \$4.00 per Share to \$1.00 and \$1.20, as the case may be, as set out in the summary of the material terms of the Term Sheet described under section 9 of this Explanatory Memorandum. This has the effect of increasing the number of Shares in the Company which the QVT Funds are entitled to receive on conversion of the QVT Convertible Notes.

The Term Sheet has not altered the face value of or the interest rate applicable to the QVT Convertible Notes.

Therefore, the effect of the Term Sheet is to increase the maximum number of Shares in which the principal of \$24,000,000 outstanding under the QVT Convertible Notes can be converted into from 6,000,000 Shares to 22,000,000 Shares.

Listing Rule 7.21 of the ASX Listing Rules seeks to prevent convertible notes being reorganised where the holders of Shares do not receive the same benefit. The reorganisation of the QVT Convertible Notes is required to be implemented if the Company's shareholders pass resolution 9 and for that reason resolution 9 has been made subject to the Company's shareholders passing this resolution 10. If resolution 10 is passed, then the Company will be free to reorganise the QVT Convertible Notes notwithstanding Listing Rule 7.21.

Your Directors recommend that you vote in favour of resolution 10.

11. Resolution 11 – Adoption of Director and Executive Equity Plan

It is proposed to establish the Director and Executive Equity Plan to attract, retain, motivate and reward senior executives and Directors (including non-executive Directors) of the Company (collectively the "**Participants**") by issuing either or both Rights and Options to the Participants to allow the Participants to acquire fully paid ordinary class shares in the Company upon exercising the Rights or Options, as the case may be. The exercise of each Right and Option entitles the holder of that Right or Option, as the case may be, to acquire one fully paid ordinary class share in the capital of the Company.

To achieve its corporate objectives the Company needs to attract and retain a range of people with skills that are critical to the ongoing success of the Company.

The Board considers that grants of Rights and Options to be made to selected eligible persons under the proposed Director and Executive Equity Plan will underpin the Company's employment strategies, and that the implementation of the Director and Executive Equity Plan will:

- provide incentives to the Participants to focus on superior performance that creates shareholder value;
- link the reward of executive staff with the achievement of strategic goals and the long-term performance of the Company;
- enable the Company to recruit and retain the talented people needed to achieve the Company's business objectives; and
- align the financial interests of the Participants with those of the Company's shareholders.

Under the Director and Executive Equity Plan, the number of Rights and Options that may be issued to a Participant and the performance criteria and hurdles to be met prior to the issue or exercise of such Rights and Options is to be set by the board of Directors of the Company in reliance on the advice of an independent remuneration consultant.

The persons eligible to participate in the Director and Executive Equity Plan include each of the Directors of the Company, although their eligibility is subject to prior shareholder approval. If passed, resolutions 12, 13, 14, 15, 16 and 17 will enable the Directors named in those resolutions to participate in the Director and Executive Equity Plan in the same way that other Company employees for whom specific shareholder approval is not required may participate.

Subject to certain exceptions, the ASX Listing Rules prohibit listed companies issuing, in any 12 month period, more than 15% of the number of shares on issue at the start of that period without shareholder approval.

Issues under employee incentive schemes, such as the Director and Executive Equity Plan, are taken into account for this 15% limit unless the issue of securities under the employee incentive scheme has been approved by the Company's shareholders within the preceding three years.

Resolution 11 does not seek to authorise the issue of Rights or Options under the Director and Executive Equity Plan. The resolution, if passed, will mean that issues of Rights and Options to any Participant under the Director and Executive Equity Plan will not be taken into account for the purposes of determining the 15% limit imposed under the ASX Listing Rules on the number of securities which the Company can issue without shareholder approval. This is important for the Company to maintain maximum flexibility to raise capital in the future.

As the proposed Director and Executive Equity Plan has yet to be established, no Rights or Options have been issued to any person under the Director and Executive Equity Plan as at the date of the Notice accompanying this Explanatory Memorandum.

A summary of the terms of the proposed Director and Executive Equity Plan is set out below. The specific terms of any particular grant of Rights and Options, including any performance hurdle, will be contained in an invitation and associated documentation sent to Eligible Persons.

- (a) **Rules** – the Rules establish the Director and Executive Equity Plan.
- (b) **Eligible Persons** – directors and executives of any Group company who are declared by the Board to be eligible, including any Director and non-executive Director of the Company.
- (c) **Rights to acquire Shares** – grants under the Director and Executive Equity Plan will be of Options and Rights to acquire Shares, or either. A grant may comprise one or several tranches.
- (d) **Invitation to participate** – under the Rules the Board may invite selected Eligible Persons to apply for Rights to acquire Shares in the Company or Options to acquire Shares in the Company or both.
- (e) **Cost to Participant on grant** – no amount is payable by a Participant for the grant of either Rights or Options.
- (f) **Rights are non-transferable** – neither a Right nor an Option granted to a Participant is transferable and may not otherwise be dealt with, except with the Board's approval, or by operation of law on death or legal incapacity.
- (g) **Exercise price** – the exercise price of an Option will be an amount determined by the Board from time to time, fixed at the date of grant or determined by application of methodology approved by the Board. The Rights are zero exercise price options. Each Right will entitle the holder to acquire one Share in the Company, without payment, subject to the satisfaction of any performance hurdle.
- (h) **Exercise of Rights** – Rights and Options to acquire Shares will have a term determined by the Board and the relevant expiry date will be determined by the Board and advised to Participants in their invitation to participate.

A Right and Option lapses if it is not exercised by the respective expiry date.

- (i) **Dividends and voting rights** – neither the Rights nor the Options carry any right to receive dividends or to vote.
- (j) **Cessation of employment** – Unvested Rights and Options will lapse and cannot be exercised if the Eligible Person in respect of whom Rights or Options are issued ceases to be employed by the Group except where employment ceases as a result of death, incapacity or redundancy, unless the Board determines otherwise having regard to the time elapsed and the Company's performance. In the case of resignation, the Board has a discretion to permit the exercise of unvested Rights and Options and will take into account the precise circumstances of the individual's resignation.
- (k) **Change of Control** – there may also be an exercise of unvested Rights and Options, on a takeover bid, change of control, scheme of arrangement or winding-up, subject to the ASX Listing Rules.
- (l) **Forfeiture after vesting** – Rights and Options that have vested but not been exercised may still become incapable of exercise at the discretion of the Board in the event of fraud or other serious breach of employment by the Eligible Person in respect of whom those Rights or Options are issued.
- (m) **Performance hurdle** – the Board may determine that, in respect of any grant, Shares will be acquired under the Director and Executive Equity Plan only where a performance hurdle is attained.
- (n) **Restrictions on disposal** – the Board may implement an appropriate procedure to restrict the disposal by a Participant of any Shares resulting from the exercise of a Right or Option.
- (o) **Source of Shares** – Shares required for the purposes of the Director and Executive Equity Plan may be sourced either by issuing new Shares or by acquiring existing Shares.
- (p) **Payment of Shares** – any costs associated with Shares issued or purchased for the purposes of the Director and Executive Equity Plan will be paid by the Company. Any Exercise Price payable on the exercise of an Option will be paid by the Participant.

This addresses "financial assistance" provided by the Company for the acquisition of its own Shares for the Director and Executive Equity Plan. For example, the Company may purchase Shares on the market for subsequent transfer to Participants in the Director and Executive Equity Plan on exercise of Rights or Options, rather than issuing new Shares.

- (q) **Reconstructions, bonus and rights issues** – the Exercise Price (if there is one) of a Right or Option or the number of Shares underlying a Right or Option will be adjusted in the manner required by the ASX Listing Rules from time to time to take account of capital reconstructions and bonus issues.

If there is a rights issue to all holders of Shares in the Company before a Right or Option under the Director and Executive Equity Plan is exercised, the Exercise Price for the Right or Option or the number of Shares underlying the Right or Option will be appropriately adjusted as required by the ASX Listing Rules from time to time.

- (r) **New issues** – the holders of Rights and Options are not entitled to participate in any new issue to existing holders of securities in the Company unless the holder has become entitled to exercise the Right or Option and the holder exercises the Right or Option before the record

date for the determination of entitlements to the new issue of securities and participates as a result of being a holder of Shares.

- (s) **Amendments to Rules** – subject to the provisions of the Director and Executive Equity Plan and the ASX Listing Rules, the Board may amend the Rules or the terms of grant of Rights or Options.

However, the Rules may not be amended if, broadly, in the Board's opinion the amendment would materially reduce the rights of a Participant in respect of Rights or Options already granted. Exceptions to this permit amendment for the purposes of complying with State or Commonwealth legislation, the Company's constitution or the ASX Listing Rules, or to address potential adverse tax implications for Participants generally or any Group company.

When the Director and Executive Equity Plan is established, a copy of the Rules will be available at no cost on request to the Company Secretary.

Additional information in relation to the Rights and Options that may be granted pursuant to the Director and Executive Equity Plan is set out after the commentary below in resolutions 12, 13, 14, 15, 16 and 17.

12. Resolution 12 – Grant of Rights to Mark Bouris

Background to resolutions 12, 13, 14, 15, 16 and 17

The Company has been fortunate in obtaining the services of highly qualified Directors during a very difficult period. As the present circumstances confronting the Company have precluded it from being able to pay appropriate cash remuneration to the current Directors, current commercial practice has been followed in seeking shareholder approval for remuneration packages which provide Directors with an opportunity to acquire a stake in the Company's future in which they are intimately engaged. Elements of these remuneration arrangements are both in recognition of the level of commitment of the current Directors during the past six months and part in preparation for a highly demanding period ahead.

A short statement of the difficulties encountered by the Company follows to illustrate the reasons for the proposals under resolutions 12, 13, 14, 15, 16 and 17.

On 2 June 2009, immediately prior to the appointment of the existing Directors, the QVT Funds (which are hedge funds based in the United States of America with an exposure of \$24 million of borrowings to the Company), issued a notice of default in respect of that debt. On 3 June 2009 the Company's previous Executive Chairman resigned and on 18 June 2009, as a condition of the debt moratorium entered into between the QVT Funds and the Company, new Directors were appointed and the market at that stage was first notified of the significant default.

Further, the current Board at the time of their appointment accepted further conditions of the debt moratorium which included:

- The appointment of Ernst & Young as an investigating accountant to review the anomalies between the Company's published accounts and the amount of moneys in the Company's bank accounts at the time the current Board was appointed. The Directors discovered at that stage that there were no physical records of the Company's accounts retained at the Company's premises, that a Director of the Company held a large amount of the financial records of the Company on his personal computer and, together with Ernst & Young, the accounts had to be reconstructed from bank records and other records that were obtained from the Ernst & Young investigation.

- An obligation to prepare a twelve month forecast of the cash requirements of the Company's operations and determine the funds required to ensure the ongoing viability of the Company. This required the Directors to raise funds at a time when the Company was in default under the QVT Convertible Note Deed, when its Shares were suspended from trading, when it had a funding requirement in the order of \$3 million above the cash flow of the existing operations of the Company and had less than A\$500,000 in cash.
- The third requirement imposed on the Directors under the debt moratorium was to enter into a work-out plan with the QVT Funds to repay the \$24 million principal and the outstanding interest. This led to the Company entering into the Term Sheet with the QVT Funds, the implementation of which requires shareholder approval at the Meeting.

In managing this circumstance, with clearly a degree of disquiet among shareholders, the new Directors also had to satisfy the requirements of ASIC and ASX under circumstances where the 2009 financial accounts were not able to be sent to shareholders and the 2009 annual general meeting not able to be held within the time limits imposed by the Corporations Act. The Directors have also assisted and are continuing to assist ASIC in its ongoing investigation of certain previous directors of the Company.

In this circumstance your Board has required Directors with significant courage and firm stewardship. This will remain an ongoing requirement for the coming triennium and beyond given that the Directors are still required to:

- raise additional capital,
- manage the obligations to the QVT Funds,
- manage the operating companies in the United States of America,
- expand the Company's footprint into Europe and other regions of the world,
- manage the ongoing development of the intellectual property and proprietary product of the Company,

while building upon and retaining the morale of an executive staff who are critical to the Company's survival.

It is therefore proposed to provide Mr Bouris, Mr Ting and Mr de Vlugt with tranches of Rights and Options designed to provide incentive and reward.

The grants of Rights and Options to the Directors should be considered by shareholders against a background of:

- the risks undertaken by the executive team due to the very unusual circumstances in which the Company is operating;
- the difficulty of predicting the timeline for the Company's recovery;
- unknown potential impediments to the recovery; and
- the crucial importance to shareholders and other investors of retaining the significant time commitment of the Directors who have demonstrated the capacity to cope with the prevailing uncertainties.

It should be noted that the proposals for the grants of Rights and Options do not provide returns to participants until the Company has had time to make significant progress in its recovery.

Resolution 12

Shareholder approval is sought under resolution 12 for the grant of 1,600,000 Rights to the Executive Chairman of the Company, Mr Mark Bouris, in two equal tranches of 800,000 Rights, under the terms of the Company's proposed Director and Executive Equity Plan. Shareholder approval is required under ASX Listing Rule 10.14 because Mr Bouris is a Director of the Company. The terms of grant to be applicable to the Rights are outlined in the section below under the heading "*Terms of grant of Rights*".

Mr Bouris has brought to the Company significant business experience and, in fulfilling his role as Executive Chairman of the Company, has undertaken a difficult and challenging task with inherent reputational risk. He has accepted the disadvantages of the Company's recent history, including the Company's admitted default under the QVT Convertible Note Deed, the Company incurring an operating loss of \$34,574,410 for the financial year ended 30 June 2009 and the Company's pressing need to raise capital during the turmoil of the global financial crisis, and has demonstrated his commitment and enthusiasm in successfully assisting the Company to carry on as a going concern despite those events.

Mr Bouris receives no cash remuneration personally from the Company. However, a company associated with Mr Bouris is entitled to receive an annual consultancy fee of US\$350,000 for providing the services of Mr Bouris. The Board has been advised by an independent remuneration consultant that this benefit is less than the market rate of benefits that a person of Mr Bouris' experience and reputation would expect to receive, particularly in fulfilling the role of Executive Chairman of a company in the financial position as that which currently faces the Company.

Further, because of the Company's financial position, Mr Bouris' entity agreed to defer the payment of one half of the consultancy fees to which it was entitled until 1 January 2010 and then subsequently agreed to defer payment of all the consultancy fees during the period from August 2009 to November 2009. Mr Bouris' entity has also agreed to a freeze on any increase in the amount of the annual consultancy fees for the period through to 31 December 2011.

Mr Bouris has agreed to accept the potential of a meaningful stake in the Company's future by agreeing to accept a grant of 1,600,000 Rights rather than requiring substantial cash remuneration.

Terms of grant of Rights

The Rights proposed to be granted to Mr Bouris are zero exercise price options, which entitle the holder to acquire fully paid ordinary Shares in the Company, without payment, subject to, in the case of the second tranche of 800,000 Rights, the satisfaction of a performance hurdle. Each Right entitles the holder to acquire one Share. The Rights are to be granted on the terms of the Company's proposed Director and Executive Equity Plan, if approved by shareholders under resolution 11.

Briefly, the key terms of the Rights are:

- (a) **(Tranches and Exercise Period):** the Rights are granted in two tranches as follows:
 - (i) the first tranche of 800,000 Rights is exercisable immediately after the Rules for the Director and Executive Equity Plan are established by the Board. However, 50% of the Shares resulting from the exercise of this first tranche of Rights will be required to be held in escrow by Mr Bouris until 31 December 2010; and

- (ii) the second tranche of 800,000 Rights is exercisable from and including 1 July 2011 to 30 June 2012, provided the Performance Hurdle applying to the second tranche of Rights is satisfied.
- (b) **(Expiry Date):** any Rights that remain unexercised after 30 June 2012 expire and are no longer exercisable.
- (c) **(Performance Hurdle):** the Performance Hurdle that must be satisfied before the second tranche of 800,000 Rights can be exercised is satisfaction of each of the following conditions:
- the Company completing a capital raising during the year ended 31 December 2010 raising at least \$5,000,000;
 - the effective management of the litigation to which the Company is currently party;
 - the progressive development of the current Information Technology platforms of the Group and effective engagement of the Company's management located in the United States of America; and
 - expansion of the Group's market extension into Europe and other regions of the world over the period to 30 June 2011.
- (d) **(Rights to acquire shares):** the first tranche of 800,000 Rights entitle the holder to receive 800,000 fully paid Shares in the Company without payment and, provided the Performance Hurdle applying to the second tranche of Rights is satisfied, the second tranche of 800,000 Rights entitle the holder to receive a further 800,000 fully paid Shares in the Company without payment.
- (e) **(Early Cessation of Employment):** if the services of Mr Bouris cease to be supplied to the Group prior to 1 July 2011 as a result of death, incapacity or redundancy, then Mr Bouris (or his legal personal representatives) may exercise Rights within the period stated in the Rules.
- (f) **(Change of Control):** there may be an exercise of Rights, whether or not the Performance Hurdle has been achieved, on a takeover bid, change of control, scheme of arrangement or winding up, subject to the ASX Listing Rules.

Additional Information

The following information in relation to the Rights which may be granted pursuant to resolution 12 is set out for the purposes of ASX Listing Rule 10.15.

The maximum number of Rights that may be acquired by all persons for whom approval is required under ASX Listing Rule 10.14 is 3,000,000 Rights and 5,700,000 Options (including the 1,600,000 Rights that the Board may grant to Mr Bouris as a result of the passing of resolution 12, as described above).

There is no amount payable by Mr Bouris either on the grant or exercise of any of the 1,600,000 Rights.

As the proposed Director and Executive Equity Plan has yet to be established and as it has yet to be approved by the Company's shareholders, no persons are yet to receive any securities under the Director and Executive Equity Plan as at the date of the Notice.

Mark Bouris, Kenneth Ting and Willem de Vlugt are the only Directors of the Company entitled to participate in the Director and Executive Equity Plan.

The voting exclusion statement that applies to resolution 12 is set out below resolution 12 in the Notice.

There is no loan scheme in relation to the Director and Executive Equity Plan.

The date by which Rights approved under resolution 12 will be issued by the Company will be no later than 12 months after the Meeting, that is no later than 26 February 2011.

Other features of the Rights, which are consistent with the Rules, include:

- the Rights will not be listed on ASX;
- the Shares issued on exercise of the Rights will rank equally in all respects with the Company's Shares listed on ASX; and
- the Company will apply to ASX for official quotation of the newly issued Shares on exercise of the Rights.

13. Resolution 13 – Grant of Options to Mark Bouris

Shareholder approval is sought under resolution 13 for the grant of 3,000,000 Options to the Executive Chairman of the Company, Mr Mark Bouris, in three equal tranches of 1,000,000 Options each under the terms of the Company's proposed Director and Executive Equity Plan. Shareholder approval is required under ASX Listing Rule 10.14 because Mr Bouris is a Director of the Company. The terms of grant to be applicable to the Options are outlined in the section below under the heading "*Terms of grant of Options*".

Shareholders are referred to the background section of section 12 of this Explanatory Memorandum for background information relevant to this resolution.

Terms of grant of Options

The Options are to be granted on the terms of the Company's proposed Director and Executive Equity Plan, if approved by shareholders under resolution 11.

The key terms of the Options are:

- (a) **(Tranches and Exercise Period):** the Options are granted in three equal tranches as follows:
 - (i) the first tranche of 1,000,000 Options will be exercisable in the period from 1 July 2011 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2011, the date that is 30 days after the date of that listing) to and including 30 June 2016, at an exercise price of \$1.00 per Option;
 - (ii) the second tranche of 1,000,000 Options will be exercisable in the period from 1 July 2012 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2012, the date that is 30 days after the date of that listing) to and including 30 June 2017, at an exercise price of \$2.00 per Option; and

- (iii) the third tranche of 1,000,000 Options will be exercisable in the period from 1 July 2013 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2013, the date that is 30 days after the date of that listing) to and including 30 June 2018, at an exercise price of \$3.00 per Option;
- (b) (**Expiry Date**): any Options that remain unexercised after the date of expiry of the relevant exercise period set out in paragraph (a) shall expire and shall no longer be capable of exercise.
- (c) (**Options to acquire shares**): each Option, when validly exercised, entitles the holder to receive one fully paid Share in the Company.
- (d) (**Early Cessation of Employment**): if the services of Mr Bouris cease to be supplied to the Group prior to the Options vesting, as a result of death, incapacity or redundancy, then Mr Bouris (or his legal personal representatives) may exercise the Options within 30 days of the cessation.
- (e) (**Change of Control**): there may be an exercise of Options, whether or not the Options have vested on a takeover bid, change of control, scheme of arrangement or winding up, subject to the ASX Listing Rules.

Additional Information

The following information in relation to the Options which may be granted pursuant to resolution 13 is set out for the purposes of ASX Listing Rule 10.15.

The maximum number of Options that may be acquired by all persons for whom approval is required under ASX Listing Rule 10.14 is 3,000,000 Rights and 5,700,000 Options (including the 3,000,000 Options that the Board may grant to Mr Bouris as a result of the passing of resolution 13, as described above).

There is no amount payable by Mr Bouris on the grant of the 3,000,000 Options. The amount payable by Mr Bouris on the exercise of the Options is \$1.00 for each of the 1,000,000 Options in the first tranche of Options, \$2.00 for each of the 1,000,000 Options in the second tranche of Options and \$3.00 for each of the 1,000,000 Options in the third tranche of Options.

As the proposed Director and Executive Equity Plan has yet to be established and as it has yet to be approved by the Company's shareholders, no persons are yet to receive any securities under the Director and Executive Equity Plan as at the date of the Notice.

Mark Bouris, Kenneth Ting and Willem de Vlucht are the only Directors of the Company entitled to participate in the Director and Executive Equity Plan.

The voting exclusion statement that applies to resolution 13 is set out below resolution 13 in the Notice.

There is no loan scheme in relation to the Director and Executive Equity Plan.

The date by which Options approved under resolution 13 will be issued by the Company will be no later than 12 months after the Meeting, that is no later than 26 February 2011.

Other features of the Options, which are consistent with the Rules, include:

- the Options will not be listed on ASX;
- the Shares issued on exercise of the Options will rank equally in all respects with the Company's Shares listed on ASX; and
- the Company will apply to ASX for official quotation of the newly issued Shares on exercise of the Options.

14. Resolution 14 – Grant of Rights to Kenneth Ting

Shareholder approval is sought under resolution 14 for the grant of 1,200,000 Rights to an executive Director, Mr Kenneth Ting, in two equal tranches of 600,000 Rights, under the terms of the Company's proposed Director and Executive Equity Plan. Shareholder approval is required under ASX Listing Rule 10.14 because Mr Ting is a Director of the Company. The terms of grant to be applicable to the Rights are outlined in the section below under the heading "*Terms of grant of Rights*".

Shareholders are referred to the background section of section 12 of this Explanatory Memorandum for background information relevant to this resolution.

Mr Ting has brought to the Company a background in both technology and merchant banking and has committed himself to a strenuous programme of activity to bring the Company through an intensely difficult period. Since being appointed as Director, Mr Ting has fulfilled the role of acting CEO of the Company and has spent significant time in the United States of America working with management in formulating the strategic direction of the Company.

Mr Ting receives no cash remuneration personally from the Company. However, a company associated with Mr Ting is entitled to receive an annual consultancy fee of US\$275,000 for providing the services of Mr Ting. The Board has been advised by an independent remuneration consultant that this benefit is less than the market rate of benefits that a person of Mr Ting's experience and reputation would expect to receive, particularly in fulfilling the role of executive Director of a company in the financial position as that which currently faces the Company.

Further, because of the Company's financial position, Mr Ting's entity agreed to defer the payment of one half of the consultancy fees to which it was entitled until 1 January 2010 and then subsequently agreed to defer payment of all the consultancy fees during the period from August 2009 to November 2009. Mr Ting's entity has also agreed to a freeze on any increase in the amount of the annual consultancy fees for the period through to 31 December 2011.

Mr Ting has agreed to accept the potential of a meaningful stake in the Company's future by agreeing to accept a grant of 1,200,000 Rights rather than requiring substantial cash remuneration.

Terms of grant of Rights

The Rights proposed to be granted to Mr Ting are zero exercise price options, which entitle the holder to acquire fully paid ordinary Shares in the Company, without payment, subject to, in the case of the second tranche of 600,000 Rights, the satisfaction of a performance hurdle. Each Right entitles the holder to acquire one Share. The Rights are to be granted on the terms of the Company's proposed Director and Executive Equity Plan, if approved by shareholders under resolution 11.

Briefly, the key terms of the Rights are:

- (a) **(Tranches and Exercise Period):** the Rights are granted in two tranches as follows:

- (i) the first tranche of 600,000 Rights is exercisable immediately after the Rules for the Director and Executive Equity Plan are established by the Board. However, 50% of the Shares resulting from the exercise of this first tranche of Rights will be required to be held in escrow by Mr Ting until 31 December 2010; and
- (ii) the second tranche of 600,000 Rights is exercisable from and including 1 July 2011 to 30 June 2012, provided the Performance Hurdle applying to the second tranche of Rights is satisfied.
- (b) **(Expiry Date):** any Rights that remain unexercised after 30 June 2012 expire and are no longer exercisable.
- (c) **(Performance Hurdle):** the Performance Hurdle that must be satisfied before the second tranche of 600,000 Rights can be exercised is satisfaction of each of the following conditions:
- the Company completing a capital raising during the year ended 31 December 2010 raising at least \$5,000,000;
 - the effective management of the litigation to which the Company is currently party;
 - the progressive development of the current Information Technology platforms of the Group and effective engagement of the Company's management located in the United States of America; and
 - expansion of the Group's market extension into Europe and other regions of the world over the period to 30 June 2011.
- (d) **(Rights to acquire shares):** the first tranche of 600,000 Rights entitle the holder to receive 600,000 fully paid Shares in the Company without payment and, provided the Performance Hurdle applying to the second tranche of Rights is satisfied, the second tranche of 600,000 Rights entitle the holder to receive a further 600,000 fully paid Shares in the Company without payment.
- (e) **(Early Cessation of Employment):** if the services of Mr Ting cease to be supplied to the Group prior to 1 July 2011 as a result of death, incapacity or redundancy, then Mr Ting (or his legal personal representatives) may exercise Rights within the period stated in the Rules.
- (f) **(Change of Control):** there may be an exercise of Rights, whether or not the Performance Hurdle has been achieved, on a takeover bid, change of control, scheme of arrangement or winding up, subject to the ASX Listing Rules.

Additional Information

The following information in relation to the Rights which may be granted pursuant to resolution 14 is set out for the purposes of ASX Listing Rule 10.15.

The maximum number of Rights that may be acquired by all persons for whom approval is required under ASX Listing Rule 10.14 is 3,000,000 Rights and 5,700,000 Options (including the 1,200,000 Rights that the Board may grant to Mr Ting as a result of the passing of resolution 14, as described above).

There is no amount payable by Mr Ting either on the grant or exercise of any of the 1,200,000 Rights.

As the proposed Director and Executive Equity Plan has yet to be established and as it has yet to be approved by the Company's shareholders, no persons are yet to receive any securities under the Director and Executive Equity Plan as at the date of the Notice.

Mark Bouris, Kenneth Ting and Willem de Vlugt are the only Directors of the Company entitled to participate in the Director and Executive Equity Plan.

The voting exclusion statement that applies to resolution 14 is set out below resolution 14 in the Notice.

There is no loan scheme in relation to the Director and Executive Equity Plan.

The date by which Rights approved under resolution 14 will be issued by the Company will be no later than 12 months after the Meeting, that is no later than 26 February 2011.

Other features of the Rights, which are consistent with the Rules, include:

- the Rights will not be listed on ASX;
- the Shares issued on exercise of the Rights will rank equally in all respects with the Company's Shares listed on ASX; and
- the Company will apply to ASX for official quotation of the newly issued Shares on exercise of the Rights.

15. Resolution 15 – Grant of Options to Kenneth Ting

Shareholder approval is sought under resolution 15 for the grant of 2,250,000 Options to an executive Director, Mr Kenneth Ting, in three equal tranches of 750,000 Options each under the terms of the Company's proposed Director and Executive Equity Plan. Shareholder approval is required under ASX Listing Rule 10.14 because Mr Ting is a Director of the Company. The terms of grant to be applicable to the Options are outlined in the section below under the heading "*Terms of grant of Options*".

Shareholders are referred to the background section of section 12 of this Explanatory Memorandum for background information relevant to this resolution.

Terms of grant of Options

The Options are to be granted on the terms of the Company's proposed Director and Executive Equity Plan, if approved by shareholders under resolution 11.

The key terms of the Options are:

- (a) **(Tranches and Exercise Period):** the Options are granted in three equal tranches as follows:
 - (i) the first tranche of 750,000 Options will be exercisable in the period from 1 July 2011 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2011, the date that is 30 days after the date of that listing) to and including 30 June 2016, at an exercise price of \$1.00 per Option;
 - (ii) the second tranche of 750,000 Options will be exercisable in the period from 1 July 2012 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2012, the date that is 30 days

after the date of that listing) to and including 30 June 2017, at an exercise price of \$2.00 per Option; and

- (iii) the third tranche of 750,000 Options will be exercisable in the period from 1 July 2013 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2013, the date that is 30 days after the date of that listing) to and including 30 June 2018, at an exercise price of \$3.00 per Option;
- (b) **(Expiry Date):** any Options that remain unexercised after the date of expiry of the relevant exercise period set out in paragraph (a) shall expire and shall no longer be capable of exercise.
- (c) **(Options to acquire shares):** each Option, when validly exercised, entitles the holder to receive one fully paid Share in the Company.
- (d) **(Early Cessation of Employment):** if the services of Mr Ting cease to be supplied to the Group prior to the Options vesting, as a result of death, incapacity or redundancy, then Mr Ting (or his legal personal representatives) may exercise the Options within 30 days of the cessation.
- (e) **(Change of Control):** there may be an exercise of Options, whether or not the Options have vested, on a takeover bid, change of control, scheme of arrangement or winding up, subject to the ASX Listing Rules.

Additional Information

The following information in relation to the Options which may be granted pursuant to resolution 15 is set out for the purposes of ASX Listing Rule 10.15.

The maximum number of Options that may be acquired by all persons for whom approval is required under ASX Listing Rule 10.14 is 3,000,000 Rights and 5,700,000 Options (including the 2,250,000 Options that the Board may grant to Mr Ting as a result of the passing of resolution 15, as described above).

There is no amount payable by Mr Ting on the grant of the 2,250,000 Options. The amount payable by Mr Ting on the exercise of the Options is \$1.00 for each of the 750,000 Options in the first tranche of Options, \$2.00 for each of the 750,000 Options in the second tranche of Options and \$3.00 for each of the 750,000 Options in the third tranche of Options.

As the proposed Director and Executive Equity Plan has yet to be established and as it has yet to be approved by the Company's shareholders, no persons are yet to receive any securities under the Director and Executive Equity Plan as at the date of the Notice.

Mark Bouris, Kenneth Ting and Willem de Vlugt are the only Directors of the Company entitled to participate in the Director and Executive Equity Plan.

The voting exclusion statement that applies to resolution 15 is set out below resolution 15 in the Notice.

There is no loan scheme in relation to the Director and Executive Equity Plan.

The date by which Options approved under resolution 15 will be issued by the Company will be no later than 12 months after the Meeting, that is no later than 26 February 2011.

Other features of the Options, which are consistent with the Rules, include:

- the Options will not be listed on ASX;
- the Shares issued on exercise of the Options will rank equally in all respects with the Company's Shares listed on ASX; and
- the Company will apply to ASX for official quotation of the newly issued Shares on exercise of the Options.

16. Resolution 16 – Grant of Rights to Willem de Vlugt

Shareholder approval is sought under resolution 16 for the grant of 200,000 Rights to a Director of the Company, Mr Willem de Vlugt, in two tranches, one of 80,000 Rights and the other of 120,000 Rights, under the terms of the Company's proposed Director and Executive Equity Plan. Shareholder approval is required under ASX Listing Rule 10.14 because Mr de Vlugt is a Director of the Company. The terms of grant to be applicable to the Rights are outlined in the section below under the heading "*Terms of grant of Rights*".

Shareholders are referred to the background section of section 12 of this Explanatory Memorandum for background information relevant to this resolution.

Mr de Vlugt has been engaged in an intensive programme of activity supporting the Company through a difficult period.

The proposal to issue 200,000 Rights to Mr de Vlugt recognises that commitment.

Terms of grant of Rights

The Rights proposed to be granted to Mr de Vlugt are zero exercise price options, which entitle the holder to acquire fully paid ordinary Shares in the Company, without payment, subject to, in the case of the second tranche of 200,000 Rights, the satisfaction of a performance hurdle. Each Right entitles the holder to acquire one Share. The Rights are to be granted on the terms of the Company's proposed Director and Executive Equity Plan, if approved by shareholders under resolution 11.

Briefly, the key terms of the Rights are:

- (a) **(Tranches and Exercise Period):** the Rights are granted in two tranches as follows:
 - (i) the first tranche of 80,000 Rights is exercisable immediately after the Rules for the Director and Executive Equity Plan are established by the Board. However, 50% of the Shares resulting from the exercise of this first tranche of Rights will be required to be held in escrow by Mr de Vlugt until 31 December 2010; and
 - (ii) the second tranche of 120,000 Rights is exercisable from and including 1 July 2011 to 30 June 2012, provided the Performance Hurdle applying to the second tranche of Rights is satisfied.
- (b) **(Expiry Date):** any Rights that remain unexercised after 30 June 2012 expire and are no longer exercisable.
- (c) **(Performance Hurdle):** the Performance Hurdle that must be satisfied before the second tranche of 120,000 Rights can be exercised is satisfaction of each of the following conditions:

- the Company completing a capital raising during the year ended 31 December 2010 raising at least \$5,000,000;
 - the effective management of the litigation to which the Company is currently party;
 - the progressive development of the current Information Technology platforms of the Group and effective engagement of the Company's management located in the United States of America; and
 - expansion of the Group's market extension into Europe and other regions of the world over the period to 30 June 2011.
- (d) **(Rights to acquire shares):** the first tranche of 80,000 Rights entitle the holder to receive 80,000 fully paid Shares in the Company without payment and, provided the Performance Hurdle applying to the second tranche of Rights is satisfied, the second tranche of 120,000 Rights entitle the holder to receive a further 120,000 fully paid Shares in the Company without payment.
- (e) **(Early Cessation of Employment):** if the services of Mr de Vlugt cease to be supplied to the Group prior to 1 July 2011 as a result of death, incapacity or redundancy, then Mr de Vlugt (or his legal personal representatives) may exercise Rights within the period stated in the Rules.
- (f) **(Change of Control):** there may be an exercise of Rights, whether or not the Performance Hurdle has been achieved, on a takeover bid, change of control, scheme of arrangement or winding up, subject to the ASX Listing Rules.

Additional Information

The following information in relation to the Rights which may be granted pursuant to resolution 16 is set out for the purposes of ASX Listing Rule 10.15.

The maximum number of Rights that may be acquired by all persons for whom approval is required under ASX Listing Rule 10.14 is 3,000,000 Rights and 5,700,000 Options (including the 200,000 Rights that the Board may grant to Mr de Vlugt as a result of the passing of resolution 16, as described above).

There is no amount payable by Mr de Vlugt either on the grant or exercise of any of the 200,000 Rights.

As the proposed Director and Executive Equity Plan has yet to be established and as it has yet to be approved by the Company's shareholders, no persons are yet to receive any securities under the Director and Executive Equity Plan as at the date of the Notice.

Mark Bouris, Kenneth Ting and Willem de Vlugt are the only Directors of the Company entitled to participate in the Director and Executive Equity Plan.

The voting exclusion statement that applies to resolution 16 is set out below resolution 16 in the Notice.

There is no loan scheme in relation to the Director and Executive Equity Plan.

The date by which Rights approved under resolution 16 will be issued by the Company will be no later than 12 months after the Meeting, that is no later than 26 February 2011.

Other features of the Rights, which are consistent with the Rules, include:

- the Rights will not be listed on ASX;
- the Shares issued on exercise of the Rights will rank equally in all respects with the Company's Shares listed on ASX; and
- the Company will apply to ASX for official quotation of the newly issued Shares on exercise of the Rights.

17. Resolution 17 – Grant of Options to Willem de Vlugt

Shareholder approval is sought under resolution 17 for the grant of 450,000 Options to Mr Willem de Vlugt, in three equal tranches of 150,000 Options each under the terms of the Company's proposed Director and Executive Equity Plan. Shareholder approval is required under ASX Listing Rule 10.14 because Mr de Vlugt is a Director of the Company. The terms of grant to be applicable to the Options are outlined in the section below under the heading "*Terms of grant of Options*".

It is proposed that Mr de Vlugt will become very active in the European development of the Company with responsibility for overseeing the Group's proposed market extension into Europe, where Mr de Vlugt resides.

Shareholders are referred to the background section of section 12 of this Explanatory Memorandum for background information relevant to this resolution.

Terms of grant of Options

The Options are to be granted on the terms of the Company's proposed Director and Executive Equity Plan, if approved by shareholders under resolution 11.

The key terms of the Options are:

- (a) **(Tranches and Exercise Period)**: the Options are granted in three equal tranches as follows:
 - (i) the first tranche of 150,000 Options will be exercisable in the period from 1 July 2011 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2011, the date that is 30 days after the date of that listing) to and including 30 June 2016, at an exercise price of \$1.00 per Option;
 - (ii) the second tranche of 150,000 Options will be exercisable in the period from 1 July 2012 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2012, the date that is 30 days after the date of that listing) to and including 30 June 2017, at an exercise price of \$2.00 per Option; and
 - (iii) the third tranche of 150,000 Options will be exercisable in the period from 1 July 2013 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2013, the date that is 30 days after the date of that listing) to and including 30 June 2018, at an exercise price of \$3.00 per Option;
- (b) **(Expiry Date)**: any Options that remain unexercised after the date of expiry of the relevant exercise period set out in paragraph (a) shall expire and shall no longer be capable of exercise.

- (c) **(Options to acquire shares):** each Option, when validly exercised, entitles the holder to receive one fully paid Share in the Company.
- (d) **(Early Cessation of Employment):** if the services of Mr de Vlugt cease to be supplied to the Group prior to the Options vesting as a result of death, incapacity or redundancy, then Mr de Vlugt (or his legal personal representatives) may exercise the Options within 30 days of the cessation.
- (e) **(Change of Control):** there may be an exercise of Options, whether or not the Options have vested, on a takeover bid, change of control, scheme of arrangement or winding up, subject to the ASX Listing Rules.

Additional Information

The following information in relation to the Options which may be granted pursuant to resolution 17 is set out for the purposes of ASX Listing Rule 10.15.

The maximum number of Options that may be acquired by all persons for whom approval is required under ASX Listing Rule 10.14 is 3,000,000 Rights and 5,700,000 Options (including the 450,000 Options that the Board may grant to Mr de Vlugt as a result of the passing of resolution 17, as described above).

There is no amount payable by Mr de Vlugt on the grant of the 450,000 Options. The amount payable by Mr de Vlugt on the exercise of the Options is \$1.00 for each of the 150,000 Options in the first tranche of Options, \$2.00 for each of the 150,000 Options in the second tranche of Options and \$3.00 for each of the 150,000 Options in the third tranche of Options.

As the proposed Director and Executive Equity Plan has yet to be established and as it has yet to be approved by the Company's shareholders, no persons are yet to receive any securities under the Director and Executive Equity Plan as at the date of the Notice.

Mark Bouris, Kenneth Ting and Willem de Vlugt are the only Directors of the Company entitled to participate in the Director and Executive Equity Plan.

The voting exclusion statement that applies to resolution 17 is set out below resolution 17 in the Notice.

There is no loan scheme in relation to the Director and Executive Equity Plan.

The date by which Options approved under resolution 17 will be issued by the Company will be no later than 12 months after the Meeting, that is no later than 26 February 2011.

Other features of the Options, which are consistent with the Rules, include:

- the Options will not be listed on ASX;
- the Shares issued on exercise of the Options will rank equally in all respects with the Company's Shares listed on ASX; and
- the Company will apply to ASX for official quotation of the newly issued Shares on exercise of the Options.

18. Resolution 18 – Section 195(4) approval

Section 195 of the Corporations Act essentially provides that a director of a public company may not vote or be present during meetings of directors when matters in which that director holds a "material personal interest" are being considered.

Messrs Bouris, Ting and de Vlugt have a material personal interest in the outcome of those resolutions 12, 13, 14, 15, 16 and 17 which apply to them. In the absence of this resolution 18, the Directors may not be able to form a quorum at a Directors' meeting necessary to finalise the issue of the Rights and Options contemplated by these resolutions, if each Director is considered to have a material personal interest in the outcome of each of the resolutions 12, 13, 14, 15, 16 and 17 because of the commonality of their interests.

The Directors have accordingly exercised their right under section 195(4) of the Corporations Act to put the issue to the Company's shareholders to deal with, to enable all administrative matters relating to the issue of the Rights and Options contemplated by resolutions 12, 13, 14, 15, 16 and 17 to be finalised.

19. Resolution 19 - Approval of acquisition by the Company of relevant interest pursuant to escrow arrangement

Certain of the Shares that may be issued to the QVT Funds in accordance with the Proposal are subject to a 12 month escrow from the respective date of issue of the Shares, meaning that the QVT Funds are not permitted to sell, assign, transfer or otherwise dispose of, or agree or offer to sell, transfer or otherwise dispose of such shares within the first 12 months of their issue date (the **"Escrow Arrangement"**) subject to the following material exceptions:

- (a) where a third party makes a takeover bid for all of the Shares and acceptances of that bid are received from holders of at least 50% of the Shares that are not subject to the Escrow Arrangement;
- (b) where the Shares are to be cancelled or transferred under a scheme of arrangement;
- (c) where a third part acquires a relevant interest in 50% or more of the Shares;
- (d) where the Shares are required to be transferred or otherwise disposed of by operation of law; and
- (e) where all the Shares cease to be quoted on the ASX or the Company is removed from the Official List of the ASX.

The effect of the Escrow Arrangement means that any Shares that may be issued to the QVT Funds under resolutions 9(a) to (d) (the **"Escrowed Shares"**) will be subject to the Escrow Arrangement, but any of the Shares that may be issued under resolution 9(e) will not be subject to any escrow.

For the reasons set out below, as a result of a technicality under the Corporations Act, the Company would acquire a relevant interest in the Escrowed Shares in breach of the Corporations Act without the approval of shareholders of the Company under item 7 of section 611 of the Corporations Act as proposed under resolution 19.

Item 7 of Section 611 of the Corporations Act

The Company may control the exercise of the QVT Funds' power to dispose of the Escrowed Shares under the Escrow Arrangement. This means the Company will acquire a relevant interest for the purposes of the Corporations Act in the Escrowed Shares.

As at the date of the Notice, the Company does not have any relevant interest in its Shares. Upon the issue of the maximum number of Escrowed Shares that may be issued to the QVT Funds under resolutions 9(a) to (d), the Company would have a relevant interest in 26,613,333 Shares, or approximately 33.54% of the Shares on issue.

As the acquisition of this relevant interest by the Company will cause its voting power to increase from less than 20% to more than 20%, it is necessary for the Company to obtain shareholder approval pursuant to item 7 of section 611 of the Corporations Act (as explained at section 9 of this Explanatory Memorandum) to enable it to be able to issue the Escrowed Shares subject to the Escrow Arrangement.

In accordance with item 7 section 611 of the Corporations Act, the following information is provided to shareholders:

- the identity of the person proposing to make the acquisition is the Company; and
- as a result of the acquisition, the maximum extent of the increase of the Company's voting power in its Shares would increase by approximately 33.54% (from 0% to approximately 33.54%).

ASIC has granted relief from items 7(b)(iii) and 7(b)(v) of section 611 of the Corporations Act so that the Company need only disclose in this Explanatory Memorandum the maximum voting power that the Company and its associates would have (and the maximum increase in that voting power) as a result of the acquisition.

Specific information required by Item 7 of Section 611 of the Corporations Act and ASIC Regulatory Guide 74

In addition to the information required to be provided to shareholders as specified in item 7 of section 611 of the Corporations Act and the information provided elsewhere in this Explanatory Memorandum, the following details are provided in accordance with ASIC Regulatory Guide 74:

- The Company will acquire a relevant interest in the Escrowed Shares.
- Details of Shares in which the Company will have an interest before and after the issue of Shares subject to the Escrow Arrangement are set below:

As stated above, ASIC has granted relief from items 7(b)(iii) and 7(b)(v) of section 611 of the Corporations Act so that the Company need only disclose in this Explanatory Memorandum the maximum voting power that the Company and its associates would have (and the maximum increase in that voting power) as a result of issuing Shares subject to the Escrow Arrangement.

It is possible to provide some guidance as to the effect which the Escrow Arrangement would have on the Company's voting power in itself based on certain stated assumptions, including the maximum extent of the increase in the Company's voting power in itself based on these stated assumptions. However in making such assumptions the Company is making no forecast or prediction that the assumptions will be correct.

Table 3 below sets out the maximum number of Escrowed Shares that may be issued to the QVT Funds as a result of the approval of resolution 9 by the shareholders of the Company and hence the maximum number of Shares that the Company will have a relevant interest in by virtue of issuing Shares subject to the Escrow Arrangement:

Table 3:

Debt to be converted/capitalised	Number of Shares to be issued to QVT Funds
<ul style="list-style-type: none"> • Conversion of First Half of QVT Convertible Notes 	12,000,000
<ul style="list-style-type: none"> • Conversion of Second Half of QVT Convertible Notes 	10,000,000
Conversion/capitalisation of: <ul style="list-style-type: none"> • 2008 Interest Payment • 2009 Interest Payment 	2,213,333 2,400,000
Total	26,613,333

Table 3 assumes that all of the Second Half of the QVT Convertible Notes are converted into Shares.

The following table 4 indicates the maximum increase in voting power of the Company and its associates that could arise as a result of the Escrow Arrangement and the Proposal:

Table 4:

	Existing shareholding	Proposed maximum issue of shares	Shareholding post implementation
Total Number of Shares in which the Company has a relevant interest	-	26,613,333	26,613,333
Total Number of Shares in which the Company does not have a relevant interest	50,729,325	2,000,000	52,729,325
Total number of Shares on issue	50,729,325		79,342,658
The Company's Voting power	0.00%		33.54%

Table 4 indicates that the maximum voting power that the Company (and its associates) will have as a result of the approval of resolution 19 and as a consequence of the Escrow Arrangement will be 33.54%, which is a maximum increase of 33.54% (from 0.00%). To the extent that any additional Shares are issued by the Company or securities convertible into Shares are converted into Shares, that percentage will be lower.

- There is no proposal by the Company for an additional Director to be appointed to the Board if resolution 19 is passed.
- Other than as stated in this Explanatory Memorandum, the Company does not intend to:
 - change the business of the Company;
 - Change the future employment of its current employees; or
 - otherwise redeploy its fixed assets,

and there is no current proposal whereby any property will be transferred between the Company and any person associated with it.

Other information

Except as disclosed in the Notice and this Explanatory Memorandum, there is no other information material to a shareholder's decision on how to vote on resolution 9 known to the Directors.

Directors' Recommendations

The Directors of the Company are:

Mark Bouris

Kenneth Ting

Willem de Vlugt.

Each of those Directors has considered the Independent Expert's Report and believes that the approval by shareholders of the Company acquiring a relevant interest in Shares to be issued to the QVT Funds which are to be subject to the Escrow Arrangement will be in the best interests of the Company and the non associated shareholders of the Company for the following reasons:

- The Independent Expert, Lonergan Edwards & Associates Limited has concluded that the Proposal and the Escrow Arrangement are fair and reasonable to the non associated shareholders of the Company.
- The Independent Expert, Lonergan Edwards & Associates Limited has concluded that the Escrow Arrangement will ensure that a large parcel of shares in the Company will not be able to be sold during the duration of the relevant escrow period, thereby removing a potential stock overhang.

Each of the Directors:

- approved the proposal to put resolution 19 to the Company's shareholders and recommends that shareholders vote in favour of the resolution; and
- intends to vote in favour of resolution 19 in respect of any Shares which he holds or controls.

Independent Expert's Report

The accompanying Independent Expert's Report appearing as annexure A prepared by Lonergan Edwards & Associates Limited sets out a detailed examination of the Proposal (including the Escrow Arrangement) to enable shareholders to assess the merits and decide whether to vote in favour of resolution 19.

The Independent Expert's Report sets out further information with respect to the Escrow Arrangement, and concludes that the Escrow Arrangement is reasonable to the shareholders of the Company.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodologies used and the sources of information and assumptions made.

GLOSSARY

In this Explanatory Memorandum:

\$ or **A\$** means Australian dollars and **US\$** means dollars of the United States of America.

2008 Interest Payment means the interest of \$2,213,333.33 payable to the QVT Funds in accordance with the QVT Convertible Note Deed which fell due on 31 December 2008 but which remains outstanding.

2009 Interest Payment means the interest of \$2,400,000.00 payable to the QVT Funds in accordance with the QVT Convertible Note Deed which fell due on 31 December 2009 but which remains outstanding.

ASX means ASX Limited ACN 008 624 691 or the Australian Securities Exchange, as the context requires.

ASIC means Australian Securities and Investments Commission.

Board means the board of the Company.

Company means TZ Limited ACN 073 979 272.

Corporations Act means the Corporations Act 2001 (Cth).

Director means a director of the Company.

Director and Executive Equity Plan means the employee incentive scheme to be established by the Rules for the grant of Rights and Options.

Explanatory Memorandum means the explanatory memorandum accompanying the Notice.

Group means the Company and each related body corporate of the Company.

Independent Expert means Lonergan Edwards & Associates Limited.

Independent Expert's Report means the report prepared by the Independent Expert dated 14 January 2010 appearing as annexure A to this Explanatory Memorandum.

Listing Rules or **ASX Listing Rules** means the official listing rules of ASX.

Meeting or **Annual General Meeting** means the annual general meeting convened by the Notice.

NASDAQ means the securities exchange in the United States of America known as The NASDAQ Stock Market.

non associated shareholders means the shareholders of the Company other than the QVT Funds and their associates.

Notice means the notice of meeting accompanying this Explanatory Memorandum.

Option means an option to acquire one Share, which option is issued under the terms of the Director and Executive Equity Plan.

Proposal means the issue by the Company to the QVT Funds of the Shares set out in resolution 9 of the Notice.

QVT Convertible Note Deed means the Convertible Note and Option Subscription Deed between the Company and the QVT Funds dated 24 December 2007, as amended from time to time.

QVT Convertible Notes means the 24,000 unsecured convertible notes each with a face value of \$1,000.00 issued by the Company to the QVT Funds in accordance with the QVT Convertible Note Deed.

QVT Funds means QVT Fund LP and Quintessence Fund L.P.

QVT Information means the following parts of this Explanatory Memorandum, other than information which is expressly attributed to the Company, its directors, officers, advisers or agents, or is derived from information provided by or on behalf of the Company:

- (a) the text under the heading "Identity of persons who will acquire relevant interests in Shares issued as a result of the Proposal"; and
- (b) the text under the heading "QVT Funds' intentions for the future of the Company if the acquisition of Shares as a result of the Proposal is approved".

Resurgence means TZ Resurgence Nominees Pty Limited ACN 138 259 828.

Right means a zero exercise price option to acquire one Share, which Right is issued under the terms of the Director and Executive Equity Plan.

Rules means the terms and conditions of issue applying to Rights and Options issued under the Director and Executive Equity Plan, as amended from time to time.

Series II Convertible Note Deed means the Convertible Note Subscription Deed between the Company, the QVT Funds, Resurgence and Sydcomp dated 15 July 2009, as amended from time to time.

Series II Convertible Notes means the 3,861,000 convertible notes issued under the Series II Convertible Note Deed as at the date of the Notice, being 1,518,000 secured convertible notes each with a face value of \$1.00 issued by the Company to Resurgence and the 2,343,000 secured convertible notes each with a face value of \$1.00 issued by the Company to Sydcomp.

Share means an ordinary fully paid share in the capital of the Company.

Sydcomp means Sydcomp Pty Limited ACN 139 601 282.

Term Sheet means the Term Sheet between the Company and the QVT Funds dated 14 September 2009, as it may be amended from time to time.

Annexure A

Independent Expert's Report

LONERGAN EDWARDS & ASSOCIATES LIMITED

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21 January 2010

Subject: Conversion of debt to equity

Dear Sirs

The Proposal

- 1 On 18 September 2009 TZ Limited (TZ) announced that it had entered into a binding Term Sheet with QVT Fund LP and Quintescence Fund L.P. (together, QVT) which, if approved by TZ shareholders, will result in:
- (a) the conversion of \$18.6 million in convertible notes, interest and other debt owed by TZ to QVT into at least 18.6 million ordinary shares (which will be issued to QVT)
 - (b) the conversion price of the remaining 12,000 convertible notes¹ in TZ held by QVT² becoming no more than \$1.20 per TZ share (subject to possible adjustment under the terms of the convertible note deed under which the convertible notes were issued), being a 20% premium to the maximum conversion price in (a) above³
- (hereinafter referred to as the Proposal).

1 The face value of each convertible note held by QVT is \$1,000 per note.

2 Initially only 50% of the convertible notes held by QVT are being converted to ordinary shares under the Proposal.

3 All other terms of the convertible notes will remain the same. That is, interest at 10% per annum will be payable, with the next interest payment being due on 31 December 2010. If not converted to ordinary shares, the principal of \$12 million will need to be repaid on 19 February 2013.

- 2 The \$18.6 million in convertible notes, interest and other debt being converted to TZ shares comprises the following:

Total QVT debt being converted to equity	A\$m
Face value of convertible notes held by QVT ⁽¹⁾	12.0
Interest on convertible notes ⁽²⁾	4.6
Other amounts owed to QVT ⁽³⁾	2.0
Total debt being converted to equity	18.6

Note:

- 1 Being half of the convertible note debt owed to QVT.
- 2 Being interest at 10% per annum, notwithstanding that QVT is actually entitled to charge interest at the default rate of 12% per annum (but has waived its right to do so if the Proposal is implemented).
Notes were issued in February 2008.
- 3 Under the Proposal TZ is required to reimburse QVT for:
 - (a) legal costs incurred in connection with the issue of default notices to TZ, consents for the issue of convertible notes and the Proposal; and
 - (b) amounts paid by QVT on behalf of TZ to investigate and report on TZ's financial position and to assist in the recovery of monies that may be owing to TZ.

- 3 The price at which the \$18.6 million in debt will be converted to ordinary shares in TZ will be equal to the lesser of \$1.00 per share and the lowest price of any new issue of shares (whether issued or agreed to be issued) by TZ on or before completion. In this regard, TZ's directors have instructed us that TZ does not expect to issue further ordinary shares prior to completion.

- 4 Accordingly, for the purposes of this report we have assumed that:

- (a) the \$18.6 million in debt owed to QVT will be converted into ordinary shares at a price of \$1.00 per share; and
- (b) the conversion price on the remaining TZ convertible notes held by QVT (which have a face value of \$12 million) will therefore become \$1.20 per share.

- 5 Under the Proposal, all shares issued upon conversion of the convertible notes and all shares issued in satisfaction of TZ's unpaid interest on the convertible notes for the 2008 and 2009 calendar years will be subject to a 12-month escrow from the date of issue (the Escrow Arrangement).

Conditions

- 6 The Proposal is subject to various conditions being satisfied or waived by QVT in writing on or before 28 February 2010, including:
- (a) TZ obtaining all shareholder, regulatory or other approvals or consents that are required
 - (b) no material adverse event, event of default or claim that could reasonably be expected to constitute a material adverse event occurring under the terms of the Convertible Note and Option Subscription Deed dated 24 December 2007 (Convertible Note Deed)

- (c) approval being received by TZ from the Australian Securities Exchange (ASX) indicating that it will grant official quotation of the TZ shares to be issued to QVT.
- 7 Should these conditions not be met on or before 28 February 2010 (or such later date as agreed by QVT) the Term Sheet will terminate and the convertible note debt of \$24 million (plus related interest) owing to QVT will immediately become due and payable.

Background

- 8 TZ issued convertible notes to QVT under the terms of the Convertible Note Deed dated 24 December 2007.
- 9 On 31 December 2008, TZ was required to pay interest in the sum of approximately \$2.2 million to QVT under the Convertible Note Deed. TZ did not do so and consequently an event of default occurred, giving QVT the right to require TZ to redeem the convertible notes and repay the whole of the outstanding debt owed under the Convertible Note Deed (Total Outstanding Amount).
- 10 On 1 June 2009, QVT issued a notice to TZ requiring TZ to pay the whole of the Total Outstanding Amount (the Default Notice). TZ was unable to meet this demand.
- 11 TZ's entire board was replaced on 18 June 2009 and the company has taken legal action against certain previous directors of TZ and their associates seeking the recovery of a material sum of damages. These proceedings are scheduled to be held in March 2010. Counter-claims have also been received from a previous director.
- 12 As a result of negotiations between TZ's current board of directors and QVT, on 18 June 2009 TZ and QVT agreed a moratorium to allow the negotiation of a work out plan for the repayment of monies owed to QVT.
- 13 This led to the Proposal described above, which was announced to the ASX on 18 September 2009.
- 14 To facilitate the Proposal, QVT has agreed to extend the terms of the moratorium period applying to the repayment of all principal and interest under the Convertible Note Deed to 1 March 2010 (or any earlier date on which the Term Sheet may be terminated).
- 15 In agreeing to a moratorium QVT also required that the directors of TZ appoint an independent forensic accountant to investigate and report on the financial position of TZ. Ernst & Young (E&Y) were appointed to undertake this work. The material findings of E&Y's report (which were announced to the ASX on 1 September 2009) were that:
- (a) the level of cash reserves of TZ and its subsidiaries as at 31 March 2009 differed materially from the \$7.9 million reported in the ASX Appendix 4C Quarterly report lodged by TZ with the ASX on 28 April 2009. The E&Y report calculated that the cash reserves of TZ and its subsidiaries as at 31 March 2009 (using foreign exchange rates prevailing as at 31 March 2009) were only \$1.1 million

- (b) the bank balances of TZ and its subsidiaries as at 24 June 2009 (based on the bank statements which had been located by E&Y) were only:
 - (i) A\$235,931.49 (but after deducting known credit card debts of \$43,279.88, reduced to A\$192,651.61)
 - (ii) US\$327,709.56; and
 - (iii) £8,232.26
 - (c) contrary to the ASX Appendix 4C lodged by TZ with the ASX on 28 April 2009 (which showed that \$2.4 million in interest and other finance costs had been paid by TZ during the quarter ended 31 March 2009) TZ has not paid any interest to QVT and it was not clear to whom this sum has been paid or if any such sum was paid
 - (d) the audited financial accounts of TZ for the year ended 30 June 2008 stated that amounts of \$6.85 million were owed to TZ by “sundry debtors”. However, TZ does not believe any of these debts have been paid and the current board has been unable to locate any supporting documentation to confirm with any reliability how these sundry debtors arose, which persons are liable for the sundry debts and whether the sundry debts are collectible.
- 16 As a result of these accounting irregularities and the lack of available financial records, the current TZ board of directors has had to reconstruct TZ’s financial statements for the year ended 30 June 2009 from source documents. These financial statements, which were released to the ASX on 24 December 2009, stated that:
- (a) TZ incurred a loss after tax of \$34.6 million in the year ended 30 June 2009. Included in this result were \$16.2 million in doubtful debts and impairment losses
 - (b) as at 30 June 2009 TZ had net assets of \$29.6 million (approximately 60 cents per share) and negative net tangible assets of \$24.0 million.
- 17 A summary of TZ’s financial statements for the year ended 30 June 2009 is set out in Appendix C.

Purpose of report

- 18 Should the Proposal be approved, QVT will acquire a 28.7% relevant interest in TZ ordinary shares as shown below:

QVT shareholding if the Proposal is approved			
	Existing Shareholdings (million)	Proposed issue of shares (million)	Shareholdings post implementation of Proposal (million)
QVT	1.25	18.6	19.85
Other shareholders	49.4	-	49.4
Total shares on issue	50.65		69.25
QVT shareholding	2.47%		28.7% ⁽¹⁾

Note:

- 1 It should be noted that if QVT converted its remaining convertible notes to shares at \$1.20 per share it would acquire a further 10 million shares in TZ. Assuming no other TZ shares are issued QVT's shareholding in TZ would increase in such circumstances to approximately 37.7%.

-
- 19 Section 606 of the Corporations Act prohibits the acquisition of a relevant interest in issued voting shares of a company if the acquisition results in a person's voting power in the company increasing from below 20% to more than 20%, or from a starting point between 20% and 90%, without making an offer to all shareholders of the company.
- 20 Item 7 of section 611 of the Corporations Act allows the non-associated shareholders to waive this prohibition by passing a resolution at a general meeting.
- 21 Accordingly, the Proposal requires the approval of the non-associated shareholders of TZ in accordance with item 7 of section 611 of the Corporations Act.
- 22 Consequently, the directors of TZ have requested that we prepare an independent expert's report (IER) setting out our opinion on whether the Proposal is fair and reasonable to the non-associated shareholders in TZ.
- 23 By virtue of the operation of section 608(1)(c) of the Corporations Act, which provides that a person has a relevant interest in securities of a company if they have power to dispose of, or control the exercise of a power to dispose of securities, TZ will itself be deemed to have a relevant interest in the shares issued to QVT which are subject to the Escrow Arrangement.
- 24 Consequently, the directors of TZ have requested that we provide our opinion as to whether the Escrow Arrangement (whereby certain shares issued to QVT will be escrowed for a period of 12 months) is reasonable and in the best interests of the shareholders of TZ.

Summary of opinion

Assessment of reasonableness

- 25 In our opinion the Proposal is reasonable and in the best interests of TZ shareholders in the absence of a superior proposal. In summary, we are of this opinion principally because:
- (a) if the Proposal is not implemented (and in the absence of a superior proposal, the likelihood of which we consider remote), in our opinion, TZ shareholders are highly unlikely to receive any value for their TZ shares because TZ is likely to be placed in administration
 - (b) in contrast to (a) above, the Proposal implicitly values TZ's existing shares (in total) at \$48.6 million
 - (c) TZ shareholders will therefore be significantly better off if the Proposal is approved.
- 26 We therefore strongly recommend that TZ shareholders approve the Proposal in the absence of a superior alternative.

Assessment of fairness

- 27 In the circumstances, in our opinion, there is no reasonable reference point upon which to reliably determine the full underlying value of TZ shares (refer paragraph 45). However, based on the information available to us, in our opinion, the Proposal is also implicitly fair to TZ shareholders as it implies a value for TZ shares which is greater than that indicated by traditional valuation methodologies having regard to the earnings and cash flow prospects of the company.
- 28 Further detail on the reasons for our opinion and recommendation are stated below.

Assessment of reasonableness

Position of TZ shareholders if the Proposal is not implemented

29 If the Proposal is not implemented:

- (a) TZ's convertible note debt of \$24 million (plus accrued interest of approximately \$4.6 million) owed to QVT will become immediately due and payable
- (b) based on existing funds, TZ does not have the financial capacity to repay the convertible note debt owed to QVT
- (c) in the absence of an alternative proposal that is satisfactory to QVT, the directors of TZ will therefore need to appoint voluntary administrators to TZ
- (d) in our opinion, the net realisable value of TZ's assets in an administration scenario⁴ is unlikely to exceed the Company's debts, which as at 22 December 2009 exceeded \$32 million
- (e) accordingly, in our opinion, TZ shareholders are unlikely to receive any value for their TZ shares.

Position of TZ shareholders if the Proposal is implemented

- 30 If the Proposal is implemented, debts owed to QVT totalling \$18.6 million will convert to 18.6 million ordinary shares (based on the assumed conversion price of \$1.00 per TZ share) and the conversion price of the remaining convertible notes held by QVT (which have a face value of \$12 million) will reduce to \$1.20 per TZ share. These remaining convertible notes may be converted by QVT at any time up from 19 February 2010 to 19 February 2013.⁵
- 31 Discounting the \$1.20 conversion price on the remaining convertible notes held by QVT at the interest rate payable on the convertible notes of 10% per annum (to allow for the time value of money and a return for risk) results in the following weighted average conversion price per TZ share (in present value terms) under the Proposal:

Weighted average conversion price in present value terms	Amount converted A\$m	Present value of conversion price A\$
Initial conversion of debt to equity	18.6	1.00
Remaining convertible note amount owed to QVT	12.0	0.89 ⁽¹⁾
Weighted average conversion price in present value terms		<u>0.96⁽²⁾</u>

⁴ The net tangible assets of TZ were negative \$24.0 million as at 30 June 2009.

⁵ Being the maturity date of the convertible notes.

Note:

- 1 Being \$1.20 per share discounted at 10% per annum (compounded) for 3.14 years (being the period from our valuation date of 31 December 2009 to the maturity date of the convertible notes of 19 February 2013).
- 2 Being \$18.6 million at \$1.00 plus \$12.0 million at \$0.89, divided by the sum of \$18.6 million plus \$12.0 million.

- 32 On this basis, the Proposal implicitly values the existing ordinary shares in TZ at \$48.6 million, as set out below:

Implied value of TZ ordinary shares	
Number of existing TZ ordinary shares on issue (million)	50.65
Present value of weighted average conversion price (\$)	0.96
Value of TZ ordinary shares implied by the Proposal (\$m)	48.6

- 33 As TZ shareholders are unlikely to receive any value for their TZ shares if the Proposal is not implemented, in our opinion, TZ shareholders will therefore be significantly better off if the Proposal is implemented.

Comparison with listed market prices

- 34 The present value of the weighted average conversion price of \$0.96 per share (as above) is consistent with the market price of TZ shares of \$0.96 immediately prior to the shares being suspended from the ASX on 18 June 2009.
- 35 However, had TZ shares recommenced trading on the ASX prior to the date of this report they would almost certainly have fallen significantly, due to concerns regarding the solvency of TZ and the revelation of significant irregularities regarding TZ's financial statements. Consequently, in our opinion, the present value of the weighted average conversion price under the Proposal represents a significant premium to the likely market price of TZ shares had they recommenced trading prior to the date of this report.

Comparison with recent capital raisings

- 36 Between 16 July 2009 and 24 December 2009, TZ raised some \$3.9 million from the issue of 3,861,000 convertible notes to TZ Resurgence Nominees Pty Limited (1,518,000 notes) and Sydcomp Pty Limited (2,343,000 notes). The funds raised were required for on-going working capital purposes.
- 37 The key terms of these convertible notes are as follows:
- (a) each Convertible Note was issued for a sum of \$1.00
 - (b) interest accrues on each Convertible Note at 10% per annum, calculated on the outstanding principal amount and payable annually in arrears or on the date the Convertible Note is redeemed
 - (c) the Convertible Notes are required to be repaid on 15 July 2010 unless converted to ordinary shares of the Company

- (d) the Convertible Notes are convertible into that number of ordinary shares in TZ equal to the face value of the Convertible Notes plus all outstanding interest divided by the lower of \$1.00 and the lowest price at which any ordinary shares are issued by TZ after 15 July 2009 and prior to conversion
 - (e) TZ may voluntarily redeem the Convertible Notes by giving 45 days written notice to a Noteholder for an amount equal to the principal outstanding on the Convertible Notes, plus all accrued and unpaid interest
 - (f) conversion of the Convertible Notes into ordinary shares in TZ remains subject to shareholder and regulatory approvals
 - (g) the Convertible Notes held by Sydcomp are secured by a first ranking charge over all of the assets of TZ, other than TZ's shares in its subsidiaries Product Development Technologies Inc. and PDT Holdings, Inc.
- 38 As conversion into ordinary shares does not need to occur until 15 July 2010, in our opinion it is appropriate to calculate the present value of the conversion price. Using the interest rate payable on the notes of 10% per annum to discount the conversion price results in a conversion price in present value terms (as at 31 December 2009) of no more than 95 cents.⁶
- 39 We note therefore that the present value of the price at which QVT can convert its Convertible Notes (and other debt) to TZ ordinary shares under the Proposal of \$0.96 per share (refer paragraph 31) is broadly consistent with the present value of the conversion price on the Convertible Notes issued to TZ Resurgence Nominees Pty Limited and Sydcomp Pty Limited.

Reduction in debt and interest expenses

- 40 We also note that the Proposal (if implemented) reduces TZ's indebtedness by some \$18.6 million immediately, reducing interest costs by some \$1.86 million per annum (based on an interest rate of 10% per annum).

Likelihood of a superior proposal

- 41 Due to the level of debt owed to QVT (which in the absence of the Proposal needs to be repaid), in our opinion, it is highly unlikely that a superior proposal will emerge.

Conclusion – “reasonableness”

- 42 Based on the above, in LEA's opinion, the Proposal is “reasonable”.

Assessment of fairness

- 43 Under Australian Securities & Investments Commission (ASIC) Regulatory Guide 111, in order for the Proposal to be “fair” the price at which TZ shares are being issued to QVT must exceed or be equal to the full underlying value of the shares in TZ (determined on a 100% controlling interest basis).

⁶ The conversion price in present value terms is no more than 95 cents because the conversion price will reduce if ordinary shares are issued below \$1.00 per share prior to 15 July 2010.

44 Based on ASIC's policy intent we understand that:

- (a) when assessing the fairness of a transaction the expert must determine the full underlying value of the company's shares without applying any discount due to company specific factors (such as excess gearing or the need to undertake a significant equity raising) which may impair the company's ability to realise full underlying value
- (b) company specific factors which may impair a company's ability to realise full underlying value should only be taken into account when assessing the reasonableness of a transaction.

45 However, as:

- (a) information on the financial performance and / or financial position of TZ subsequent to 30 June 2009 is unavailable
- (b) as at 30 June 2009, TZ had a significant net tangible asset deficiency
- (c) cash flows from operations were significantly negative for the year to 30 June 2009
- (d) based on discussions between LEA and TZ's directors, TZ's directors do not expect TZ's cash flows from operations to be positive until (at least) the year ending June 2011⁷. TZ's ability to achieve this is subject to various factors such as the successful commercialisation of its technologies and the successful raising of further capital. There are considerable risks that both these events may not occur
- (e) the level of future profitability (and timing thereof) is inherently uncertain; and
- (f) TZ shares have been suspended from trading on the ASX since 19 June 2009

in our opinion, there is no reasonable reference point upon which to reliably determine the full underlying market value of TZ shares as required under ASIC Regulatory Guide 111.

46 Furthermore, as TZ is likely to go into administration if the Proposal is not implemented, in our opinion, the absence of a basis upon which to assess the value of TZ shares does not materially inhibit TZ shareholders in making an informed decision as to whether to approve the Proposal.

⁷ Source: TZ Directors Report in the 2009 Annual Report.

47 Nonetheless, to assist TZ shareholders consider the Proposal⁸ we note the following:

(a) TZ has incurred significant losses in the 3 years ended 30 June 2009:

TZ financial performance	Year to 30 Jun 07	Year to 30 Jun 08	Year to 30 Jun 09
Operating revenue	15.9	15.0	17.7
EBITDA	(6.1)	(9.8)	(13.6)
Depreciation and amortisation	(1.3)	(1.3)	(2.0)
EBIT	(7.4)	(11.1)	(15.6)
Doubtful debts and impairment losses	-	(1.9)	(16.2)
Net interest expenses	(1.4)	(1.4)	(2.5)
Loss from continuing operations before tax	(8.8)	(14.4)	(34.3)

- (b) TZ's Directors have confirmed that TZ remains loss making and generated negative operating cash flow in the period subsequent to 30 June 2009
- (c) TZ Directors have indicated that they do not expect TZ's cash flows from operations to be positive until (at least) the year ending June 2011
- (d) one of TZ's wholly owned subsidiaries, Product Development Technologies, Inc (PDT), reportedly generated a profit before tax (and impairment charges) of \$0.48 million in the year ended 30 June 2009
- (e) based on TZ's balance sheet as at 30 June 2009 the company had negative net tangible assets of \$24.0 million
- (f) whether TZ's technologies will be able to be successfully commercialised (and the timing thereof) is inherently uncertain
- (g) TZ will require significant additional equity capital before it is able to successfully commercialise its technologies and become cash flow positive. While TZ has been able to raise approximately \$3.9 million in recent months, this capital is potentially short term in nature having been raised through the issue of secured convertible notes which have to be repaid on or before 15 July 2010 if the notes are not converted to equity
- (h) in the absence of the Proposal, in our view it is likely to be extremely difficult for TZ to raise additional equity capital. This is principally because:
- (i) TZ is currently unprofitable
 - (ii) any equity raised would rank behind convertible note debt (and interest) of over \$32 million
 - (iii) if the Proposal is not implemented, the convertible notes (and interest) owing to QVT of some \$28.6 million will immediately become due and payable (unless QVT agrees to some other arrangement)

⁸ In Appendix D we also set out comments on TZ's business operations and outlook which has been sourced from the 2009 Directors' Report.

- (i) notwithstanding that TZ is currently unprofitable and further equity capital will need to be raised, we note that the Proposal values the TZ business at some \$82 million, as shown below:

TZ implied enterprise value	
	\$m
Number of TZ shares currently on issue (million)	50.65
Number of TZ shares to be issued to QVT (million)	18.6
Number of TZ shares – post-issue (million)	69.25
Weighted average conversion price (refer paragraph 31)	0.96
Market capitalisation post conversion of \$18.6 m in debt	66.5
Remaining convertible notes held by QVT	12.0
Convertible notes held by TZ Resurgence and Sydcomp	3.9
Implied enterprise value	<u>82.4</u>

- (j) given that an appropriate EBITDA multiple for TZ is unlikely to exceed 10 times EBITDA (due to the current level of earnings uncertainty), the enterprise value calculated above necessitates future (annual) EBITDA of at least \$8 million. In contrast, operating EBITDA was negative in the 12 months ended 30 June 2009 and TZ’s directors have indicated that they do not expect TZ’s cash flows from operations to be positive until (at least) the year ending June 2011.

Conclusion – “Fairness”

- 48 Based on the above, in our opinion, the Proposal is also implicitly “fair” to TZ shareholders as it implies a value for TZ shares which is greater than that indicated by traditional valuation methodologies having regard to the future earnings and cash flow prospects of the Company.

Conclusion on the Proposal

- 49 In our opinion, the Proposal is therefore fair and reasonable and in the best interests of TZ shareholders.
- 50 We therefore strongly recommend that TZ shareholders approve the Proposal in the absence of a superior alternative.

Opinion on Escrow Arrangement

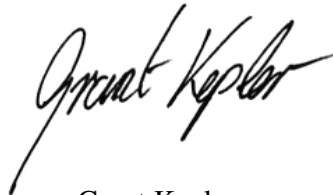
- 51 LEA have also been asked to provide an opinion as to whether the Escrow Arrangement (whereby certain shares issued to QVT will be escrowed for a period of 12 months) is reasonable and in the best interests of the shareholders of TZ. In our opinion, the Escrow Arrangement is reasonable and in the best interests of shareholders, as it will ensure that a large parcel of shares in TZ is not able to be sold for the duration of the escrow period, thereby removing a potential stock overhang.

52 We therefore recommend that TZ shareholders approve the Escrow Arrangement.

Yours faithfully



Craig Edwards
Authorised Representative



Grant Kepler
Authorised Representative

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and Independent Expert's Reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Explanatory Memorandum to be sent to TZ shareholders in connection with the Proposal.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER our fees are based on a time cost basis using agreed hourly rates.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 Independent Expert's Reports to shareholders.
- 2 This report was prepared by Mr Edwards and Mr Kepler, who are each authorised representatives of LEA. Mr Edwards and Mr Kepler have over 16 years and 15 years experience respectively in the provision of valuation advice.

Declarations

- 3 This report has been prepared at the request of the Directors of TZ to accompany the Explanatory Memorandum to be sent to TZ shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposal is fair and reasonable and in the best interests of TZ shareholders.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Kepler have any interest in the outcome of the Proposal. LEA is entitled to receive a fixed fee of \$30,000 plus GST for the preparation of this report. With the exception of the above fee, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with TZ or QVT prior to the preparation of this report.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, TZ has agreed to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of TZ which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.

Appendix C

TZ Consolidated Income Statement

Year ended 30 June 2009	Consolidated Entity	
	2009	2008
	\$	\$
Revenue	18,219,905	15,975,275
Cost of sales	(12,747,645)	(9,745,273)
Gross profit	5,472,260	6,230,002
Other income	585,265	155,432
Doubtful debts and impairment losses	(16,236,418)	(1,920,017)
Employment related expenses	(8,894,986)	(7,536,321)
Occupancy expenses	(609,368)	(340,858)
Communications expenses	(377,513)	(332,764)
Depreciation	(977,515)	(568,580)
Amortisation of intangibles	(1,062,171)	(716,518)
Professional and corporate services	(2,540,002)	(2,352,535)
Travel and accommodation	(2,077,942)	(2,298,495)
Due diligence and related costs	-	(1,145,094)
Development costs	(2,964,131)	-
Finance costs	(2,991,840)	(2,434,275)
Other expenses	(1,614,904)	(1,127,315)
Loss before income tax	(34,289,265)	(14,387,338)
Income tax expense (benefit)	285,145	(16,634)
Loss from continuing operations	(34,574,410)	(14,370,704)
Loss from discontinued operations	-	-
Net loss for the year	(34,574,410)	(14,370,704)
Continued operations:		
Basic loss per share (cents)	(71.26)	(33.84)
Diluted loss per share (cents)	(71.26)	(33.84)

Appendix C

TZ Consolidated Balance sheet

Year ended 30 June 2009	Consolidated Entity	
	2009	2008
	\$	\$
Current assets		
Cash and cash equivalents	565,818	23,909,009
Trade and other receivables	2,834,539	9,455,904
Work in progress	687,106	56,794
Total current assets	4,087,463	33,421,707
Non-current assets		
Property, plant and equipment	3,027,185	2,586,200
Intangible assets	53,594,220	51,989,189
Deferred tax asset	408,095	113,332
Total non-current assets	57,029,500	54,688,721
Total assets	61,116,964	88,110,428
Current liabilities		
Trade and other payables	6,242,164	3,152,038
Provisions	390,812	499,101
Borrowings	22,486,759	973,969
Total current liabilities	29,119,735	4,625,108
Non-current liabilities		
Provisions	791,782	763,574
Borrowings	-	20,791,804
Deferred tax liabilities	1,581,598	1,426,354
Total non-current liabilities	2,373,380	22,981,732
Total liabilities	31,493,114	27,606,840
Net assets	29,623,850	60,503,589
Equity		
Issued capital	115,948,325	114,948,325
Reserves	(801,167)	(3,495,838)
Accumulated losses	(85,523,308)	(50,948,898)
Total equity	29,623,850	60,503,589

Appendix D

Extracts from 2009 Director's Report

Principal Activities

- 1 The principal activities of the consolidated entity during the financial year were:
 - (a) The development and commercialisation of intellectual property, particularly TZ MicroSecurity™ product solutions through Telezygology Inc. (TZI)
 - (b) Providing full service capability in product development services through PDT Group.
- 2 All of the operations of the consolidated entity are based the USA, UK and Ukraine.

Review of Operations

- 3 TZI has been focused on 3 main objectives; completing development of a core set of commercial grade products, establishing contract manufacturing, and securing credible distribution and sales partners. Early in FY09 significant cost cutting by the previous Board resulted in a number of product development projects being suspended and the majority of sales personnel terminated resulting in a significant reduction in sales activity. Additionally, an anticipated acquisition which would have provided the company with an important network component did not proceed to completion. These issues resulted in lost time and sales.
- 4 Due to cash constraints and the global recession a decision was made to make volume product sales a priority rather than to pursue licensing opportunities which take longer to generate revenue. TZI delivered a number of positives in FY09 and beyond, with the first significant revenue generated from delivering a variety of production volume products. In FY09 and in the 6 months thereafter the company has rolled out a range of new products including several models of the second generation TZ Radial electronic locking device and USB interconnect modules, software and accessories, and a suite of products that form the TZ Praetorian data centre system. As at December 2009, the Company is in the process of completing new solutions for the data centre and the Accountable Package logistics market.
- 5 The global recession impacted on the development spending of PDT's customers but PDT had a strong finish to the year that has continued into FY10 with PDT currently ahead of plan. PDT's presence in the medical device category strengthened, in particular, with a number of large scale programs in the fast-growing market for telemedicine applications. Telemedicine is one of the fastest growing product segments among medical device manufacturers, and PDT's unique mix of consumer electronics and medical device experience positions them well to capitalise on this growing trend.
- 6 Additional highlights during the year and up to the Directors' report can be summarised as follows.

Appendix D

Anixter

- 7 4 new product models were developed to form the TZ Praetorian™ electronic locking system targeting data centres. The first stocking order was delivered in August 2009, the system was commercially launched in September 2009, and it has been well received with several small pilot installations complete and a significant pipeline developing. Supporting Anixter's strong sales force and distribution with demand and lead generation is a national network of commissioned manufacturer representatives which TZI has appointed.

Dell

- 8 The recently released Dell Adamo XPS, the world's thinnest laptop, features the new TZ Tube Actuator to provide electronic unlatching at extremely small size. Although the Adamo XPS is targeted at the high end of the market with relatively low volumes, the company believes there are many other volume applications for this commercially proven TZ actuator. PDT played a significant part in the development of both the Adamo and the Adamo XPS.

Larson Manufacturing

- 9 TZI has shipped nearly 50,000 units of the 96105L Keyless Electronic Lock Set over the last year to Larson Manufacturing. TZI has received positive comments from individual buyers however sales for the storm door product offered through Lowe's have been below expectation (the Lock Set is only sold as part of a premium door, not as a separate or after market item). Low sales have led to high TZI component inventory at Larson, so TZI production has been stopped for the foreseeable future. Given current economic conditions, Lowe's have chosen to focus marketing efforts on lower cost products, therefore premium door products have not received the anticipated marketing promotion. TZI doesn't anticipate further revenue from Larson in FY10.

Cardinal Health

- 10 Designed and engineered by PDT as part of a significant consulting contract, Cardinal Health recently launched the FDA approved Cardinal ORwell™, the next generation in surgical fluid collection and disposal systems. The ORwell™ system features the TZ Intevia® Radial electronic lock to allow the disposal station to detect when the unit has been docked and initiate the disposal process.

PDT receives IDEA Silver Award

- 11 The Perkins Brailier, redesigned by PDT, received the prestigious Business Week IDEA Silver Award, citing its sensitivity to social responsibility. The IDEA program is the premier international competition honouring design excellence. PDT was featured in the news on several occasions during the year.

Additional Distribution

- 12 The channel to market for TZ products is through established distributors that service specialised industries. TZ has broadened its distribution by signing a distribution agreement with AVAD, a leading distributor of custom home technology products and has appointed International Office Products Cooperative (IOPC) as a Value Added Reseller of its TZ InBox™ solution platform. Additionally Hafele, a global manufacturer of architectural and furniture hardware distributes TZ products through its catalogues.

Appendix D

Intellectual Property (IP)

- 13 Significant progress has been made during the year on the IP portfolio. TZ currently has 43 pending patent families consisting of 159 worldwide applications. The portfolio currently holds 47 granted patents which includes 10 recent grants in Fixing and Release Systems, Bolt Assembly, Further Improvements in Fixing and Release Systems, Fastener Networks (US grant), Smart Memory Alloy Control (US grant), Tracks Power and Data Tracks, and Fasteners and Other Assemblies (US grant).
- 14 Throughout FY09, TZ closely examined the portfolio for areas to trim expenses. As a result of this process IP costs were reduced by 40% from the budget by reallocating work to in house counsel, delaying prosecution on certain applications, and trimming applications that were determined to be not core to the business agenda. Further to this, TZ has contracted with an external party to examine remaining Application IP for possible licensing or sale to third parties.

New Product Development

- 15 TZI has several new products, including software applications, currently in Beta testing that will further target the Data Centre and Intelligent Enclosures markets. The release of these new products early in 2010 will better equip the company to meet its sales objectives in the target segments. Product Managers have been added to the team to develop value based business cases, undertake market needs analysis and in depth research to ensure Product Development activity is properly targeted and economically justified.

Moving Forward

- 16 The Directors have evaluated the company, its products and opportunities. Despite the downward pressure of the past year they consider the core technology to be sound and commercially viable. They have worked closely with management on the company's near term business strategy; taking corrective action where needed to ensure the team is properly equipped to attack their sales objectives in 2010.
- 17 Restoring shareholder value starts by getting to a cash positive position, which the Directors are targeting for early FY11.⁹ The objective of generating near term sales must be pursued with intensity and in the past few months this has been the main focus of the Board.
- 18 Accordingly, the business plan for 2010 is directed on 3 specific market segments where TZ's product set is well differentiated and the value proposition clear. These market segments are outlined in more detail later in this section.

⁹ The Directors have subsequently clarified this statement. The Directors are targeting for cash flows from operations to be positive by the second quarter of the financial year ending 30 June 2011, that is, prior to 1 January 2011, subject to the successful commercialisation of the company's technologies and the successful raising of further capital.

Appendix D

- 19 With the company stabilised, sights are now turning to the definition of longer term growth plans that will underpin the company's future success. It is recognised that a more structured approach to product commercialisation is a key part of these plans. The Company's original strategy of licensing its technology to established manufacturers had merit, but this is only effective if strong demand exists for the product or technology. TZ technology and Intellectual Property (IP) is still at a relatively early stage of adoption and the company must prove there is a market need for it. This stage is about market validation and building customer demand. The plans currently being executed along with the recent commercial successes will move TZ to the next step where the objective is to enter into OEM relationships with large companies that integrate TZ products with their own. Successful execution at this stage then leads to the third step where licensing and selling of IP rights to others, on favourable terms to TZ, will be possible.
- 20 The Directors believe following these "3 steps" and executing plans that reflect the requirements of each step to be the most expedient and practical way to drive growth and expand market access.
- 21 Additionally, future plans will place a greater emphasis on software development as there are significant opportunities to increase revenue through a broader set of TZ software applications - expanding software development capability is an immediate priority.
- 22 TZ's past work has resulted in products that are now ready, or materially ready for market. Distribution and sales partners are in place and the favourable response from customers for TZ Praetorian are all encouraging indicators of success in 2010.

Target Markets

- 23 Traditional access control systems have mainly focused on securing the entrance doors of buildings. TZ's intelligent security and sensing products extend access control systems beyond the entrance door to other objects that must be secured. It also provides networked access control, monitoring, and audit traceability for objects that are typically secured with a physical key, if at all. These applications can collectively be described as opportunities for "TZ MicroSecurity™".
- 24 Increasingly there is a need to provide security at the object or "microsecurity" level such as a data storage rack or filing cabinet. Companies that must be compliant with security requirements such as PCI DSS (Payment Card Industry Data Security Standard), HIPAA (Health Insurance Portability and Accountability Act) and Sarbanes Oxley must have auditable systems in place to prove compliance.
- 25 TZ technology creates "Intelligent Enclosures" at the very edge of these access control networks and enables storage of any access event in a central database. There are millions of cabinets, equipment racks, drawers, lockers, closets, access and service panels that increasingly must be secured and monitored. TZ MicroSecurity™ addresses that need.
- 26 TZ MicroSecurity™ products have been designed so that it can integrate with third party access control systems or act as a standalone solution to provide for a wide range of TZ MicroSecurity™ applications in a number of vertical and horizontal target markets.

Appendix D

Data Centres

- 27 TZ is targeting the \$2 billion data centre market. Pilot installations have validated the value of TZ products in this segment and the benefits of TZ MicroSecurity are readily cost justified. TZ systems provide cost effective electronic audit trail and cabinet level security. The joint development partnership with Anixter has resulted in TZ Praetorian™, the first open architecture cabinet locking system that can be integrated with existing Enterprise level access controllers and standard cabling infrastructure.
- 28 TZ is nearing completion of a complimentary solution that combines control software and hardware into a standalone product. These integrated solutions represent extensions to the product line targeted at customers that do not need/want Enterprise level control. TZ Praetorian Express and Centurion systems will allow for simple setup and monitoring of smaller standalone local TZ networks along with all auxiliary sensing options available from TZ hardware. The addition of standard software allows TZ to capture a greater share of the system revenue stream while allowing a new level of partnerships with 3rd party software through the TZ API (Application Programming Interface).

Intelligent Secure Enclosures

- 29 An Intelligent Secure Enclosure is any storage repository or enclosure having the following characteristics:
- (a) the need to secure and monitor items placed within the storage enclosure
 - (b) the need to restrict, control and record access to openings of the enclosure in order to secure the stored items
 - (c) the need to detect, record and respond to environmental factors within or surrounding the enclosure such as tamper events, temperature, humidity, detection of an object, presence of liquids, gases and other compounds
 - (d) examples of Intelligent Enclosures include networked electronic lockers, evidence storage cabinets, blood and bio assay storage, next generation overhead bins and vertical storage systems in public transportation and next generation of mail and automated package delivery boxes.
- 30 For many market segments outside of data centres, TZ products can provide the same benefits of electronic audit trails and physical security to meet specific problems that are not being solved cost effectively by existing enclosure suppliers. Custom TZ software in combination with standard TZ hardware can address targeted markets in goods delivery and storage for the so-called logistical “last mile”. TZ InBox™, for the Accountable Mail market, is the first example of TZ software and hardware manufactured into physical lockers. Similar software applications will be developed that extend the TZ InBox concept into numerous other market segments.

Appendix D

- 31 In 2009 development work commenced on TZ Inbox, a software Application that integrates with standard TZ hardware, designed for installation into standard milled storage furniture and lockers. The solution targets the Package delivery and logistics Industry and provides significant cost savings over the next best alternative through automation of accountable package delivery. The first working prototype attracted significant interest which lead to the development of a full commercial version now in the final stages of testing and anticipated to be ready for release to customers in late January 2010. The company has received orders for initial systems from its value added reseller, IOPC (International Office Products Cooperative), who have recently commenced production of a 30 bank locker design, incorporating the TZ Inbox system, which they anticipate shipping late January to several of their large corporate customers. These initial locker systems will be trialled and if successful will lead to additional orders. In February 2010, IPOC will launch TZ Inbox to their national reseller Network.

Custom Installation

- 32 As noted earlier, TZ has signed a distribution agreement with AVAD, a leading distributor of custom home technology products. AVAD distributes TZ components that tie into 3rd party control systems in their product line such as RTI, Universal Remote Control, and Phillips. TZ also continues to work with other controller manufacturers such as Crestron and AMX to create software modules that will allow TZ products, sold through AVAD, to be integrated in the home and commercial markets. This market has been hit hard by the recent economic crisis and while this channel does not typically sell physical security products, the technology integrators are looking for new products to offer their clients.

OEM Relationships

- 33 As TZ products gain validation in these markets, TZ will establish credibility and enable agreements to be established with OEM's (Original Equipment Manufacturers) for TZ products to be sold through other distribution channels. Fortune 500 companies with brands that span the general industrial security market are of particular interest TZ is preparing to extend its existing products to fit this large market and is investigating several OEM partnerships for the TZ Intevia® Radial and other new hardware and software products. The wider general Security market is only now beginning to understand the benefits and growth possibilities of the type of cabinet-level and object security covered by TZ MicroSecurity.

Licensing Across Vertical Markets

- 34 It remains an important longer term objective to license TZ intellectual property and products in market segments that have onerous product qualification requirements and other high barriers to entry. TZ continues to pursue IP coverage for technology that will provide value for the Company. The last year has seen more focus on near-term development although several new IP-generating projects have continued in the background. The turmoil of the last year, both in the world and at TZ, has been a setback for making favourable agreements in these areas, however attractive deal opportunities will return once TZ's business validation has demonstrated the value of TZ technology.

Appendix D

- 35 PDT is an integral part of Intellectual Property development and further growth is planned in the next year by expanding the funding available for PDT to develop ideas and revenue opportunities that are generated outside of normal client consulting work. PDT's growing expertise in the medical device industry and telemedicine category connects PDT to a wide network of innovative companies actively involved in developing and licensing new technology.

Annexure B

Notice of Nomination of Auditor

13 January 2010

The Directors
TZ Limited
Level 11, 1 Chifley Square
Sydney NSW 2000

Dear Sirs,

NOMINATION OF AUDITOR

For the purposes of Section 328B(1) of the Corporations Act, I Kenneth Ting, being a member of TZ Limited, hereby nominate BDO Audit (NSW-VIC) Pty Limited as auditor of the Company.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ken Ting', with a large, stylized initial 'K' at the start.

Kenneth Ting