

## **ASX Announcement**

**Friday 23 September 2005**

Freshtel Holdings Limited will hold an Extraordinary General Meeting on 24 October 2005 to obtain shareholder approval for the \$11m capital raising announced today - BBY Limited was the Lead Broker and Hall Capital Strategies Pty Limited the Financial Adviser to the Private Placement.

Notice of the Meeting attached

**FRESHTEL HOLDINGS LIMITED**  
**ACN 111 460 121**

**EXPLANATORY MEMORANDUM, NOTICE OF  
GENERAL MEETING AND  
PROXY FORM**

**For a General Meeting to be held on  
Monday 24 October 2005 at 3pm (EST) at the  
Computershare Conference Centre, Yarra Falls, 452 Johnston Street,  
Abbotsford VIC 3067**

*This Explanatory Memorandum is an important document and requires your immediate attention. Please read it carefully. If you are in doubt as to what you should do, please consult your investment or other professional adviser.*

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## **IMPORTANT INFORMATION**

### **Role of the Australian Securities and Investments Commission (ASIC)**

A copy of this Explanatory Memorandum has been lodged with the ASIC. Neither the ASIC nor any of its officers takes any responsibility for the contents of the Explanatory Memorandum.

### **Defined terms**

Certain capitalised terms used in the Explanatory Memorandum are defined in the Glossary at the end of the Explanatory Memorandum.

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## LETTER TO SHAREHOLDERS

Dear Shareholder

The Board has called an Extraordinary General Meeting to obtain shareholder approval to raise up to \$11 million by way of a private placement of 50,000,000 ordinary shares in the Company at an issue price of \$0.22 (**Private Placement**). Shareholder approval will also be sought to raise up to a further \$2.2 million by way of an issue of up to 10,000,000 ordinary shares at an issue price of \$0.22, to satisfy any strategic investor demand or any oversubscription from the Private Placement (**Investor Issue**).

This additional capital is required to fund the Company's rollout of its products and services in the UK and the USA and to fund ongoing operations and activities in Australia, including infrastructure development, project management and marketing activities.

After taking advice from BBY Limited and Hall Capital Strategies Pty Limited, the Lead Broker and Financial Adviser to the Private Placement respectively, the Board is also recommending a restructure of the Company's capital structure, by varying the rights attached to the Class A, Class B and Class C Performance Shares. The variation requires the written consent of the holders of 75% of the Performance Shareholders and the approval of the ordinary shareholders. The terms of the variation are set out in the Explanatory Memorandum. As at the date of this Explanatory Memorandum, the variation of the rights attached to the Performance Shares has already been approved by the requisite majority of the Performance Shareholders. However, the variation of rights must now also be approved by ordinary shareholders at the General Meeting. This capital restructure was announced to the ASX on 13 September 2005.

Enclosed you will find a Notice of Meeting and Proxy Form, together with this Explanatory Memorandum, which explains the Resolutions that the Directors are asking you to consider ahead of the General Meeting of Shareholders at which the Resolutions will be put to you, scheduled for the 24 October 2005.

The Company will issue a prospectus for the Private Placement Shares, and the Investor Issue Shares which will also be lodged with the Australian Securities and Investments Commission (ASIC). A copy of the prospectus will be available from the Company's website at [www.freshtelholdings.com](http://www.freshtelholdings.com) following lodgement with the ASIC.

I strongly recommend you read carefully this Explanatory Memorandum in relation to the proposed Transactions and the Resolutions.

The Board of Freshtel unanimously recommends that Shareholders vote in favour of the Resolutions set out in the Notice.

Yours sincerely

**Les Taylor**  
**Chairman**

23 September 2005

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## INDICATIVE TIMETABLE

Set out below is an indicative timetable relating to the Transactions. All times are times in Melbourne, Victoria, Australia (EST).

<b>Event</b>	<b>Date</b>
Announcement of Transactions with ASX and dispatch Notice of General Meeting seeking approval of the Transactions	23 September 2005
Lodgement of Prospectus with the ASIC	10 October 2005
Snapshot date for eligibility to vote at the General Meeting (which is the date you must own Shares)	17 October 2005
Cut off for lodging proxy form for General Meeting	3pm on 22 October 2005
General Meeting to approve Transactions	24 October 2005
Issue of Private Placement Shares	26 October 2005
Issue of Investor Issue Shares	On or before 24 January 2006

These dates are indicative only and are subject to change.

## TIME AND PLACE OF MEETING AND HOW TO VOTE

**Location:**

Computershare Conference Centre  
Yarra Falls,  
452 Johnston Street,  
Abbotsford  
VIC 3067

**Commencing:**

3pm (EST)  
24 October 2005

**How to Vote**

The business of the meeting affects your Shareholding and your vote is important. Please take action by voting in person (or authorised representative) or by proxy.

**Voting in Person**

To vote in person, attend the meeting on the date and at the place set out above. The meeting will commence at 3pm.

**Voting by Proxy**

To vote by proxy, please complete and sign the proxy form enclosed with this Explanatory Memorandum as soon as possible and either:

- send the proxy form by facsimile to the Company on facsimile number (03) 9898 0499 (International: + 61 3 9898 0499); or
- deliver the proxy form to the Company's postal address at Locked Bag 3, Surrey Hills, VIC 3127,

so that it is received not later than 3pm (EST) on 22 October 2005. Proxy forms received later than this time will be invalid.

**Your proxy form is enclosed at the end of this Explanatory Memorandum.**

## 1. GENERAL INFORMATION

This Explanatory Memorandum has been prepared for Shareholders in connection with the General Meeting of the Company to be held on 24 October 2005.

### 1.1 Overview

The Directors have been assessing alternative opportunities to raise funds to progress the Company's rollout of its products and services in the UK, the US and Australia and finance the Company's ongoing operations, including the Company's infrastructure development, project management and marketing activities.

On 29 August 2005, the Company engaged the Lead Broker and the Financial Adviser to facilitate a private placement by the Company of up to 50,000,000 ordinary shares at an issue price of \$0.22 per share, to raise a total of up to \$11,000,000 (**Private Placement**).

In order to facilitate the full placement, on the advice of the Lead Broker and Financial Adviser the Board is also recommending that the Company restructure its share capital by varying the rights attached to the Company's Class A, Class B and Class C Performance Shares. A summary of the terms of the variation is set out in section 2 of this Explanatory Memorandum. A list of the Performance Shareholders and their holdings is set out in Appendix A.

The Company is also seeking shareholder approval for the issue of up to a further 10,000,000 ordinary shares at an issue price of \$0.22 per share to satisfy strategic investor demand or any oversubscription from the Private Placement (**Investor Issue**). The Investor Issue may raise up to a further \$2,200,000.

The Company will issue a prospectus in relation to the offer of Shares under the Private Placement and the Investor Issue. The Lead Broker and Financial Adviser have advised the Company that, subject to obtaining necessary regulatory and Shareholder approvals for the variation to the terms of the Performance Shares and the Private Placement, they anticipate being able to find Investors for all the available Shares under the Private Placement. Depending upon the success of the Private Placement, Shares may be issued under the Investor Issue to satisfy strategic investor demand or any oversubscription from the Private Placement.

The Directors are of the opinion that the proposed Private Placement and Investor Issue represent a significant opportunity for the Company to raise substantial funds, which will allow the Company to implement its strategy of penetrating new overseas markets.

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## 1.2 Capital Structure

The effect of the Transactions on the capital structure of the Company is as follows:

<b>Ordinary Shares</b>	<b>Number</b>
Ordinary Shares on issue at date of this Explanatory Memorandum	88,848,500
Maximum number of Ordinary Shares to be issued under the Private Placement	50,000,000
<b>Total maximum number of Ordinary Shares on issue at completion of the Private Placement</b>	<b>138,848,500</b>
Maximum number of Ordinary Shares to be issued under the Investor Issue	10,000,000
<b>Total maximum number of Ordinary Shares on issue at completion of the Transactions</b>	<b>148,848,500</b>
<b>Performance Shares</b>	
Class A Performance Shares on issue at date of this Explanatory Memorandum	33,900,000
Class B Performance Shares on issue at date of this Explanatory Memorandum	30,000,000
Class C Performance Shares on issue at date of this Explanatory Memorandum	30,000,000
Total Performance Shares on issue at the date of this Explanatory Memorandum	93,900,000
Variation of Performance Shares results in conversion of Class B and Class C Performance Shares into Class A Performance Shares and Class A Performance Shares renamed Class A Convertible Shares	
<b>Total Class A Convertible Shares on issue at completion of Transactions (after rounding up in accordance with the terms of the variations)</b>	<b>33,900,613</b>
<b>Options</b>	
Options on issue at date of this Explanatory Memorandum	5,165,000
Options created as a result of the Transaction	0
<b>Total Options on issue at completion of the Transactions</b>	<b>5,165,000</b>

### 1.3 Advantages of the Resolutions

The Directors are of the view that the following non-exhaustive list of advantages is relevant to a Shareholder's decision on how to vote on the Resolutions:

- (a) The Private Placement and Investor Issue will provide the Company funds required to finance the roll out of its products and services in key overseas markets in the UK and the US. Funds raised will also allow the Company to continue to develop infrastructure, project management and marketing initiatives in Australia.
- (b) The Private Placement and Investor Issue should increase the number of quoted Shares on the ASX and increase liquidity in the Company's stock.
- (c) The variation to the rights of the Performance Shares will create interest and support for the Private Placement from institutional investors and will ensure the long term liquidity of the Company's stock on the ASX.
- (d) The Private Placement and Investor Issue will introduce institutional investors to the shareholder base, which is critical to the development of the Company's stock listing on the ASX and its ability to raise capital in future.

### 1.4 Disadvantages of the Resolutions

The Directors are of the view that the following non-exhaustive list of disadvantages is relevant to a Shareholder's decision on how to vote on the Resolutions:

- (a) The Private Placement and Investor Issue will result in the dilution of the current shareholders' holdings in the Company.
- (b) The New Performance Shares will, if the rights under them are exercised, result in the dilution of the current shareholders' holdings in the Company. However, this dilution will be less than would have been the case if the Performance Shares had not been restructured.

### 1.5 Directors' Recommendation

Michael Carew, Peter Warner, Sebastian Filzak and David Elbourn have a material personal interest in Resolution 1 and Resolution 2 as they hold Performance Shares through related entities. Each of these entities is listed in Appendix A, which sets out all of the Performance Shareholders and the number of Performance Shares held by them.

The Directors do not have any material personal interest in the outcome of the Resolution 3 other than their interest in their capacity as shareholders of the Company. The following Directors hold the following numbers of shares in the Company, either directly or indirectly through related entities:

<b>Director</b>	<b>No. of Ordinary Shares</b>	<b>No. of Performance Shares</b>
Mr Les Taylor	500,000	Nil

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Mr Michael Carew	21,340,959	35,385,668
Mr Peter Warner	350,587	586,812
Mr Sebastian Filzek	10,297,979	16,901,965
Mr David Elbourn	7,156,046	11,559,318

As Les Taylor is the only Director who does not directly or indirectly hold any Performance Shares, he is the only Director who intends to vote their Shares in favour of Resolution 1 and Resolution 2. The remaining directors will abstain from voting on Resolution 1 and Resolution 2.

Each of the Directors intends to vote their Shares in favour of Resolution 3.

All of the Directors consider that the Resolutions are in the best interests of the Company and its Shareholders and unanimously recommend that Shareholders vote in favour of the Resolutions. The Directors have approved the proposal to put the Resolutions to Shareholders and separately approved the information contained in this Explanatory Memorandum.

## **2. RESOLUTIONS 1 AND 2 - VARIATION OF RIGHTS ATTACHING TO PERFORMANCE SHARES**

### **2.1 Background**

The Company has engaged the Lead Broker and the Financial Adviser to advise on the Private Placement. The Lead Broker and Financial Adviser have advised that to get the interest and support of institutional investors for the placement and to ensure long term liquidity for the Company's stock on the ASX, the Performance Shares must be restructured.

The Performance Shares currently entitle the holders of those shares to be issued with up to 93,900,000 ordinary shares if certain profit targets are met by the Company prior to 31 December 2007. The Lead Broker and Financial Adviser have advised that if the Company retains the Performance Shares in their present form, it is unlikely that any institutional investor will invest in the Company, due to the dilutive effects the issuance of the ordinary shares would have on the Company's issued capital.

### **2.2 Terms of Variation**

The Lead Broker and Financial Adviser have recommended that the Performance Shares be varied as follows.

- (a) Rights associated with the Class B Performance Shares and Class C Performance Shares are varied such that all of the Class B Performance Shares and Class C Performance Shares automatically convert into Class A Performance Shares at the rate of 100,000 for 1, with effect from the date of the EGM to be held on 24 October 2005. This effectively cancels the Class B and Class C Performance Shares.
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- (b) Rights associated with the Class A Performance Shares are varied so that each Class A Performance Share is convertible into one ordinary share at any time prior to 31 December 2008 on payment of \$0.50 per share. A minimum of 100,000 shares must be converted at a time. This right is not tied to the Company meeting any profit targets. The Class A Performance Shares were renamed Class A Convertible Shares (“New Performance Shares”). Until converted, the New Performance Shares have no rights to vote at general meetings of the Company or participate in any dividend or other distribution. The full terms of the New Performance Shares are set out in Appendix B.
- (c) Any shares not converted prior to 31 December 2008 will automatically convert on that date at the rate of 100,000 for 1. Again, this effectively cancels any New Performance Shares not converted by 31 December 2008.

### **2.3 Consent Requirements – Corporations Act**

Under the section 246B(1) of the Corporations Act and Article 2.3 of the Company's Constitution, the rights attached to any class of shares may be varied if 75% of the holders of that class of shares agree in writing to the variation. If the variation is not unanimously agreed by all of the holders of a class of shares, shareholders who hold 10% or more of the class of shares varied can apply to court to have the variation undone.

At the date of this Explanatory Memorandum, the Company has already acquired the written consent of the minimum 75% of Performance Shareholders required under section 246B(1).

### **2.4 Resolution 1 - Rule 7.1 of the ASX Listing Rules**

As discussed in section 2.2, pursuant to Rule 7.1 of the ASX Listing Rules, an entity must not, without the approval of holders of Ordinary Securities, issue or agree to issue Equity Securities in any 12 month period if those securities would amount to more than 15% of its Ordinary Securities.

The Company must obtain the approval of Ordinary Shareholders under Rule 7.1 for the variations to the Performance Shares. Because of the extent of the variations to the Performance Shares, under the ASX Listing Rules the New Performance Shares are being treated as newly issued shares, rather than existing shares with varied rights.

#### **Information to be provided to Shareholders**

Set out below are the details required to be disclosed for the purposes of ASX Listing Rule 7.3:

(a) **The maximum number of securities the Company is to issue**

The maximum number of New Performance Shares on issue following the variations to the Performance Shares will be 33,900,613.

(b) **The date by which the Company will issue the Securities**

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The Performance Shares have already been issued to the Performance Shareholders. The variations to the Performance Shares will come into effect immediately following the General Meeting.

(c) **The issue price of the securities (must be fixed or minimum)**

The issue price of the Performance Shares will remain unchanged, being nil issue price. However the New Performance Shares (as varied) are convertible into one ordinary share at any time prior to 31 December 2008 on payment of \$0.50 per share.

(d) **The name of the allottees**

The names of the Performance Shareholders are set out in Appendix A.

(e) **The terms of the Securities**

The terms of the securities are set out in paragraph 2.2 above and in Appendix B.

(f) **The intended use of funds raised**

No funds will be raised from variation of the rights to the Performance Shares.

## 2.5 **Resolution 2 - Rule 10.11 of the ASX Listing Rules**

Pursuant to Rule 10.11 of the ASX Listing Rules, an entity must not issue or agree to issue Equity Securities to a Related Party without the approval of holders of Ordinary Securities.

Again, under the ASX Listing Rules the variation of the rights of the Performance Shares is considered an issue of Equity Securities. Certain Performance Shareholders are Related Parties under ASX Listing Rule 10.11 as they are related parties within the meaning of section 228 of the Corporations Act due to their association with directors of the Company. MD & MA is a related party as it is a related entity of Michael Carew. Extrico is a related party as it is a related entity of Peter Warner. Gluaff Investments is a related party as it is a related entity of Sebastian Filzek. Mantroz is a related party as it is a related party of David Elbourn.

A total of 23,262,443 New Performance Shares will be held by these Related Parties following approval of the variations by Shareholders. A breakdown of the number of Performance Shares and New Performance Shares held by each Related Party before and after the approval of the variations is set out in Appendix A.

ASX Listing Rule 10.13 sets out the notice requirements for a meeting of holders of Ordinary Securities to approve an issue of securities for the purposes of Listing Rule 10.11. The details required to be disclosed for the purposes of ASX Listing Rule 10.13 have been set out in Appendices A and B, this section 2.5 and section 2.4 above.

## 2.6 **Resolutions 1 and 2 – Interdependent**

Resolution 2 is conditional upon Shareholder approval of Resolution 1.

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## 2.7 **Announcement**

The capital restructure discussed in this section 2 was announced to the ASX on 13 September 2005.

## 3. **RESOLUTION 3 – PRIVATE PLACEMENT AND INVESTOR ISSUE**

### 3.1 **General Outline of Private Placement and Investor Issue**

The Company proposes to raise up to a maximum of \$11 million by the issue of up to 50,000,000 ordinary shares at an issue price of \$0.22 per share under the Private Placement and up to a further \$2.2m by the issue of up to 10,000,000 ordinary shares at an issue price of \$0.22 per share under the Investor Issue. Further details of the Transactions are set out in section 1 of this Explanatory Memorandum.

### 3.2 **Rule 7.1 of the ASX Listing Rules**

Pursuant to Rule 7.1 of the ASX Listing Rules, an entity must not, without the approval of holders of Ordinary Securities, issue or agree to issue Equity Securities in any 12 month period if those securities would amount to more than 15% of its Ordinary Securities.

“Equity Securities” are defined under Listing Rule 19.12 as a share, unit, option over an issued or unissued security, a right to a share, unit or option, any convertible security (that converts into an equity security) and any security that ASX decides to classify as an equity security.

“Ordinary Securities” are defined under Listing Rule 19.12 as ordinary shares or ordinary units (if the entity has none of those, the class of securities designated by ASX).

### 3.3 **Information to be provided to shareholders**

Listing Rule 7.3 sets out the notice requirement for a meeting of holders of ordinary securities to approve an issue of securities for the purposes of Listing Rule 7.1, and requires that the notice will provide to shareholders certain information.

Set out below are the details required to be disclosed for the purposes of the ASX Rules:

#### (a) **The maximum number of securities the Company is to issue**

The maximum number of ordinary shares which may be issued by the Company as part of the Private Placement is 50,000,000. The maximum number of ordinary shares which may be issued by the Company as part of the Investor Issue is 10,000,000.

#### (b) **The date by which the Company will issue the securities**

The Company intends to issue ordinary Shares under the Private Placement on 26 October 2005, or if later, within three months of the date of the General Meeting. The Company intends to issue ordinary Shares under the Investor Issue, if to satisfy oversubscription from the Private Placement, on

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26 October 2005, or if later or if to strategic investors, within three months of the date of the General Meeting.

**(c) The issue price of the securities (must be fixed or minimum)**

The issue price of each Private Placement Share and each Investor Issue Share issued to the Investors will be \$0.22.

**(d) The name of the allottees**

At the date of this Notice the Company has not identified a definitive list of the persons who will participate in the Private Placement or the Investor Issue. The Investors will be chosen from a short list of potential investors established by the Lead Broker to the Private Placement, who have indicated an interest in participating in the Private Placement, or who have indicated to the Company an interest in participating in the Investor Issue, subject to all regulatory and shareholder approvals being obtained.

**(e) The terms of the securities**

The Private Placement Shares and the Investor Issue Shares are ordinary shares ranking pari passu in all respects with the existing ordinary issued shares of the Company.

**(f) The intended use of funds raised**

The Board intends to use the funds raised from the Private Placement for the following purposes:

<b>Purpose</b>	<b>Funds (A\$ millions)</b>
Rollout in UK, including network infrastructure development, installation and project management, marketing and operating cost	3.0
Hardware rollout in UK and Australia	1.0
Rollout in US including initial infrastructure and operating costs	3.0
Australian operating costs for next 12 months	3.4
Capital Raising Costs	0.6
Total	\$11

The Board is confident that the Private Placement will raise at least \$3.4m. Of the funds raised under the Private Placement the Board intends to use the first \$3.4m for working capital purposes. If less than \$11m is raised under the Private Placement, the funding for the rollouts in the UK and the US will be scaled back.

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The Board intends to use the funds raised under the Investor Issue to contribute to the costs of the rollouts in the UK and the US or other operating costs, as required.

## GLOSSARY

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

**ASX** means Australian Stock Exchange Limited.

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

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

**Company** and **Freshtel** means Freshtel Holdings Limited (ACN 111 460 121).

**Constitution** means the Company's constitution.

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

**Directors** means the current directors of the Company.

**Explanatory Memorandum** means this explanatory memorandum.

**Extrico** means Extrico Pty Limited ACN 106 683 970.

**Financial Adviser** means Hall Capital Strategies Pty Limited.

**General Meeting** means the general meeting of Shareholders convened by the Notice.

**Gluaff** means Gluaff Investments Pty Ltd ABN 97 094 507 383.

**Investor Issue** means the issue by the Company of up to 10,000,000 Shares at an issue price of \$0.22 per Share to the Investors pursuant to the Prospectus in accordance with the details set out in section 1 of this Explanatory Memorandum.

**Investor Issue Shares** means the Shares to be issued under the Investor Issue.

**Investors** means the investors to be issued with Shares under the Private Placement and the Investor Issue, as determined in accordance with section 3.3 of this Explanatory Memorandum.

**Lead Broker** means BBY Limited.

**Mantroz** means Mantroz Pty Ltd ABN 57 003 032 184.

**MD & MA** means MD & MA Pty Ltd ACN 084 647 450.

**New Performance Shares** means the Performance Shares, as varied, following Shareholder approval of Resolutions 1 and 2, which are also called Class A Convertible Shares.

**Notice** means the notice of the general meeting of Shareholders that accompanies this Explanatory Memorandum.

**Performance Share** means a Class A Performance Share, a Class B Performance Share or a Class C Performance Share in the capital of the Company, as the case may be.

**Performance Shareholders** means holders of Performance Shares.

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**Private Placement** means the issue by the Company of up to 50,000,000 Shares at an issue price of \$0.22 per Share to the Investors pursuant to the Prospectus in accordance with the details set out in section 1 of this Explanatory Memorandum.

**Private Placement Shares** means the Shares to be issued under the Private Placement.

**Prospectus** means the prospectus to be issued by the Company in respect of the offer of up to 50,000,000 ordinary Shares by the Private Placement and up to 10,000,000 ordinary Shares by the Investor Issue.

**Resolutions** means the resolutions set out in the Notice.

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

**Shareholder** means a holder of ordinary Shares.

**Transactions** means the Private Placement, Investor Issue and variation of rights attached to the Performance Shares, as described in this Explanatory Memorandum.

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## Appendix A

### PERFORMANCE SHARES

Shareholder	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	<u>Related Director</u>	<u>New Performance Shares</u>
HIGGINS CLAN PTY LTD (ACN 110 365 734)  14A William Street RAYMOND TERRACE NSW	1,059,262	937,400	937,400		1,059,282
PHONEY INVESTMENTS PTY LTD (ACN 110 389 912)  14A William Street RAYMOND TERRACE NSW	1,059,262	937,400	937,400		1,059,282
GLUAFF INVESTMENTS PTY LTD (ABN 97 094 507 383)  Level 4, 8 Market Street, MELBOURNE VIC	6,101,987	5,399,989	5,399,989	Sebastian Filzek	6,102,095
KOELMEL, DAVID & PAMELA  87 Queens Parade, NEWPORT NSW	3,093,258	2,737,396	2,737,396		3,093,314
MANTROZ PTY LTD (ABN 59 003 032 184)  14A William Street RAYMOND TERRACE NSW	4,173,172	3,693,073	3,693,073	David Elbourn	4,173,246
BIG BLUE SEA PTY LTD (ACN 108 771 928)  51 Whistler Street MANLY NSW	635,558	562,440	562,440		635,570
C & J IRVING BUILDERS PTY LTD (ABN 87 064 290 277)  5 Beal Street, MOUNT WAVERLEY VIC	354,933	314,100	314,100		354,941

CROWN STREET CONSULTANTS PTY LTD (ACN 001 843 027)  14A William Street, RAYMOND TERRACE NSW	532,292	471,055	471,055		532,302
MC NICHOL PTY LTD (ABN 64 077 871 919)  Level 3, 401-405 Little Bourke Street MELBOURNE VIC	354,933	314,100	314,100		354,941
MD & MA PTY LTD (ACN 084 647 450)  14A William Street RAYMOND TERRACE NSW	12,775,018	11,305,325	11,305,325	Michael Carew	12,775,246
VOIP INVESTMENTS PTY LTD (ACN 110 975 089)  14A William Street RAYMOND TERRACE NSW	3,548,474	3,140,243	3,140,243		3,548,538
EXTRICO PTY LIMITED (ACN 106 683 970)  15 Gibraltar Drive RAZORBACK NSW	211,852	187,480	187,480	Peter Warner	211,856
<b>TOTAL</b>	<b>33,900,000</b>	<b>30,000,000</b>	<b>30,000,000</b>		<b>33,900,613</b>

## Appendix B

1. Rights Attaching to the New Performance Shares
    - 1.1 **(Change of Name)** With effect from 1 October 2005, New Performance Shares shall be renamed 'Class A Convertible Shares'.
    - 1.2 **(Shares)** Each New Performance Share is a share in the capital of the Company.
    - 1.3 **(General Meetings)** The New Performance Shares shall confer on the holder the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to shareholders. Holders have the right to attend general meetings of shareholders of the Company.
    - 1.4 **(No Voting Rights)** The New Performance Shares do not entitle the holder to vote on any resolutions proposed at a general meeting of shareholders of the Company.
    - 1.5 **(No Dividend Rights)** The New Performance Shares do not entitle the holder to any dividends.
    - 1.6 **(No Rights on Winding Up)** The New Performance Shares do not confer on the holder any right to participate in the surplus profits or assets of the Company upon winding up of the Company.
    - 1.7 **(Not Transferable)** The New Performance Shares are not transferable.
    - 1.8 **(Reorganisation of Capital)** If at any time the issued capital of the Company is reconstructed, all rights of a holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of reorganisation.
    - 1.9 **(Application to ASX)** The New Performance Shares will not be quoted on ASX. However, upon conversion of the New Performance Shares, the Company must within seven (7) days after the conversion, apply for the official quotation of the shares arising from the conversion on ASX.
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1.10 **(No other Rights)** The New Performance Shares give the holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

## 2. Conversion of the New Performance Shares

2.1 **(Conversion Notice)** A holder of New Performance Shares may at any time prior to 31 December 2008 (**Conversion Period**) convert New Performance Shares into ordinary Shares of the Company at the rate of one ordinary Share for one New Performance Share, by delivering to the Company:

(a) a written notice (**Conversion Notice**) setting out the number of New Performance Shares to be converted, which number must be at least 100,000 New Performance Shares, or all of the New Performance Shares held by the holder (if fewer than 100,000); and

(b) a bank cheque made out to the Company for an amount equal to \$0.50 for each New Performance Share to be converted.

2.2 **(Conversion Procedure)** If a valid Conversion Notice is served under paragraph 2.1, the relevant number of New Performance Shares will automatically convert into Shares in accordance with paragraph 2.1 and the Company must issue each holder with a new holding statement for the Shares.

2.4 **(Expiry of Conversion Period)** Any New Performance Shares which have not been converted prior to the expiry of the Conversion Period will automatically convert into ordinary Shares at the rate of one ordinary Share for each 100,000 New Performance Shares held at 5pm on the last day of the Conversion Period.

2.5 **(Ranking of Shares)** The ordinary Shares into which the New Performance Shares convert will rank pari passu in all respects with existing ordinary Shares.

2.6 **(Escrow):** If any of the New Performance Shareholders hold ordinary Shares in the Company which are subject to a restriction agreement entered into under Listing Rule 9.1 at the time of a conversion, the ordinary Shares issued to that shareholder on conversion of the New Performance Shares will be subject to the same restrictions as those ordinary Shares.

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**FRESHTEL HOLDINGS LIMITED**  
**ACN 111 460 121**

**NOTICE OF GENERAL MEETING**

Notice is given that a General Meeting of shareholders of Freshtel Holdings Limited (**Freshtel or Company**) will be held at the Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067 on 24 October 2005 at 3pm.

**AGENDA**

The Explanatory Memorandum which accompanies and forms part of this Notice describes the matters to be considered as special business and terms used in this Notice have the meaning given to them in the Explanatory Memorandum.

**SPECIAL BUSINESS**

**Resolution 1 – Issue exceeding 15% of Capital (New Performance Shares)**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of Rule 7.1 of the ASX Listing Rules and for all other purposes, approval is given for variation to the terms of the Performance Shares, as explained and otherwise on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

**Resolution 2 – Issue to Related Parties (New Performance Shares)**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to and conditional upon the passing of Resolution 1 in the Notice convening this general meeting, for the purposes of Rule 10.11 of the ASX Listing Rules and for all other purposes, approval is given for variation to the terms of the Performances Shares held by MD & MA Pty Ltd, Extrico Pty Limited, Gluaff Investments Pty Ltd and Mantroz Pty Ltd, as explained and otherwise on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

**Resolution 3 – Issue exceeding 15% of Capital (Ordinary Shares)**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of Rule 7.1 of the ASX Listing Rules and for all other purposes, approval is given for the allotment and issue to the Investors of up to 50,000,000 ordinary shares of the Company at an issue price of \$0.22 per share under the Private Placement and up to a further 10,000,000 ordinary shares of the Company at an issue price of \$0.22 per share under the Investor Issue, as explained and otherwise on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

**Short Explanation:** Because of the extent of the variations to the Performance Shares, under ASX Listing Rules 7.1 and 10.11 the New Performance Shares are being treated as newly

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issued shares, rather than existing shares with varied rights. Accordingly, shareholder approval is required under ASX Listing Rules 7.1 and 10.11 for those variations. The number of ordinary shares to be issued to the Investors under the Private Placement and the Investor Issue will amount to more than 15% of the Company's current issued ordinary share capital. Accordingly, shareholder approval is also being sought in accordance with Rule 7.1 of the ASX Listing Rules for the issue of the new ordinary shares.

**Voting Exclusion:** The Company will disregard any votes cast:

- (a) on Resolution 1, by the Performance Shareholders and any of their associates and a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed, and any of their associates;
- (b) on Resolution 2, by MD & MA Pty Ltd, Extrico Pty Limited, Gluaff Investments Pty Ltd, Mantroz Pty Ltd, and any of their associates, and a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the Resolution is passed, and any of their associates; and
- (c) on Resolution 3, BBY Limited, Hill Capital Strategies Pty Limited, the Investors and any of their associates and by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed, and any of their associates,

unless the vote is cast:

1. by a person as proxy for person who is entitled to vote, in accordance with a direction on the proxy form; or
2. by the person chairing the meeting as proxy (or its corporate representative), for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**DATED THIS 23rd DAY OF SEPTEMBER 2005  
BY ORDER OF THE BOARD**

**JAN MACPHERSON  
COMPANY SECRETARY**

**NOTES:**

1. A shareholder of the Company entitled to attend and vote is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the shareholder's voting rights. If the shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half of the votes. A proxy need not be a shareholder of the Company.
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2. Where a voting exclusion applies, the Company need not disregard a vote 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.

3. A Proxy Form accompanies this Notice and to be effective must be received at:

Freshtel Holdings  
Locked Bag 3  
Surrey Hills, VIC 3127  
or by facsimile:  
+613 9898 0499

at least 48 hours before the actual time that the EGM is held.

If the Proxy Form is signed by the attorney of a Shareholder, the authority under which the Proxy Form was signed or a certified copy of the authority must accompany the Proxy Form.

4. It has been determined that under the Corporations Regulations 7.11.37, for the purposes of the meeting, securities will be taken by the persons who are the registered holders at 3.00pm on 22 October 2005. Accordingly, security transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

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**FRESHTEL HOLDINGS LIMITED**

Registered Office: Suite 5, 651 Canterbury Road  
Surrey Hills, VIC, 3127

**FORM OF PROXY**

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

of \_\_\_\_\_

being a shareholder in Freshtel Holdings Limited and entitled to vote, hereby appoint:

\_\_\_\_\_

of \_\_\_\_\_

or failing appointment, the Chairman of the meeting, as my/our proxy to vote all/ \*\*\* of my shares on my/our behalf at the Extraordinary General Meeting of the holders of the same class of shares held by me/us in the Company, to be held on the 24th day of October 2005 and at any adjournment of the meeting. The Chairman intends to vote in favour of all resolutions in respect of undirected proxies.

If you do **not** wish to direct your proxy how to vote, please place a mark in the box.

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest.

This form is to be used in favour of/against the resolutions as follows:

		For	Against
Item 1	Issue exceeding 15% of Capital (New Performance Shares)		
Item 2	Issue to Related Parties		
Item 3	Issue exceeding 15% of Capital (Ordinary Shares)		

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2005

\_\_\_\_\_

**NOTES:**

- \*\*\* - insert % figure if appointing 2 proxies to vote and proxy voting on less than all units held.

This form should be signed by the security holder. If a joint holding, either security holder may sign. If signed by the security holder's attorney, a certified copy of the power of attorney must be attached to this form. If executed by a company, the form must be executed in accordance with the security holder's constitution and the Corporations Act 2001 (Cth)

Completed proxy forms should be returned to the Company Secretary, Freshtel Holdings Limited, Locked Bag 3, Surrey Hills, VIC 3127 or faxed to +61 3 9898 0499.

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