

**LABTAM LTD**  
**ACN 004 749 508**

**NOTICE OF GENERAL MEETING  
PROXY FORM  
EXPLANATORY MEMORANDUM  
EXPERTS REPORT**

**For the General Meeting of the Company to be held  
at 10.30am (Melbourne time) on 4 August 2005  
at  
Level 13, 500 Collins Street  
Melbourne, Victoria.**

**THIS IS AN IMPORTANT DOCUMENT**

**If you are in doubt as to what to do with this document please immediately see your legal  
adviser, financial adviser or stockbroker.**

**Dated: 30 June 2005**

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**LABTAM LTD**

**ACN 004 749 508**

**NOTICE OF GENERAL MEETING**

**Dated: 30 June 2005**

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Notice is given that a General Meeting of the members of Labtam Limited ACN 004 749 508 ("the Company") will be held at 10.30am on 4 August 2005 at Level 13, 500 Collins Street, Melbourne, Victoria for the purpose of considering the items of business in this Notice of General Meeting ("this Notice of Meeting").

Additional information concerning the following proposed resolutions is contained in the Explanatory Memorandum that accompanies and forms part of this Notice. The Explanatory Memorandum should be read in conjunction with this Notice.

**General Business**

**Resolution 1: Approval under the Takeovers Provisions**

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

"THAT subject to Resolution 2 being passed and for the purposes of Chapter 6 of the Corporations Act (in particular, without limitation, item 7 of the table in section 611 of the Corporations Act) and for all other purposes, members approve:

- (a) the acquisition by Loch Securities Pty Ltd ACN 006 259 285 of 20,000,000 ordinary shares in the capital of the Company fully paid at an issue price of \$0.01 per share, as described in the Explanatory Memorandum which accompanied this Notice of Meeting on and subject to the terms and conditions set out in the Explanatory Memorandum; and
- (b) the Company issuing the above shares to Loch Securities Pty Ltd."

*The Company will disregard any votes cast on Resolution 1 by:*

- *Loch Securities Pty Ltd and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares, if the resolution is passed; and*
- *Mr H L Purse or an associate of a person described above.*

*However, the Company need not disregard a vote on Resolution 1 if:*

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

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**Resolution 2: Related Party Transaction Provisions Approval**

If Resolution 1 is passed, to consider and if thought fit pass, without amendment, the following as an ordinary resolution:

“THAT for the purposes of Chapter 2E of the *Corporations Act* and for all other purposes members approve:

- (a) receipt by Loch Securities Pty Ltd ACN 006 259 285 (a related party of the Company within the meaning of the *Corporations Act*) of up to 20,000,000 ordinary shares in the capital of the Company fully paid at an issue price of \$0.01 per share, being the shares referred to in Resolution 1, as described in the Explanatory Memorandum which accompanied this Notice of Meeting, on and subject to the terms and conditions set out in the Explanatory Memorandum; and
- (b) receipt by Mr H L Purse (the sole director and shareholder of Loch Securities and a related party of the Company within the meaning of the *Corporations Act*) of an indirect interest in the shares proposed to be issued to Loch Securities being the shares referred to in Resolution 1 as described in the Explanatory Memorandum which accompanied this Notice of Meeting, on and subject to the terms and conditions set out in the Explanatory Memorandum.”

*Voting Exclusion Statement:*

*The Company will disregard any votes cast on Resolution 2 by:*

- *Loch Securities Pty Ltd and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares, if the resolution is passed; and*
- *Mr H L Purse or an associate of a person described above.*

*However, the Company need not disregard a vote on Resolution 2 if:*

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

*Unless the Australian Securities and Investments Commission otherwise declares, votes on Resolution 2 must not be cast (in any capacity) by or on behalf of:*

- (a) *Loch Securities and/or Mr H L Purse being related parties of the Company to whom the respective resolution would permit a financial benefit to be given; or*
- (b) *an associate of such a related party.*

*The above does not prevent the casting of a vote if:*

- (a) *it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution; and*
- (b) *is not cast on behalf of a related party if the Company to whom the resolution would permit a financial benefit to be given or on behalf of an associate of such a related party.*

*A vote is cast on behalf of an entity for the purposes of the above if, and only if, it is cast:*

- (a) *as proxy for the entity;*

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*(b) otherwise on behalf of the entity;*

*(c) in respect of a share in respect of which the entity has:*

*i. power to vote; or*

*ii. power to exercise, or control the exercise of, a right to vote.*

*Details in respect of votes cast on Resolution 2, and proxies exercised, will be recorded as provided for in section 225 of the Corporations Act.*

**Dated: 30 June 2005**  
**By Order of the Board**

**Constantine Andrew Scrinis**  
**Managing Director**

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**LABTAM LTD**  
**ACN 004 749 508**  
**EXPLANATORY MEMORANDUM**

**Dated: 30 June 2005**

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**1. INTRODUCTION**

This Memorandum provides information about Resolutions proposed by the Directors of Labtam Limited ACN 004 749 508 ("the Company") in the attached Notice of General Meeting in respect of the issue of 20,000,000 ordinary shares in the paid up capital of the Company to Loch Securities Pty Ltd ACN 006 259 285 ("the Proposed Placement").

The purpose of this Memorandum is to assist Members to make informed decisions when casting their votes by describing the Proposed Acquisition.

The Directors of the Company recommend that members carefully read this Explanatory Memorandum before making any decision in relation to the Resolutions.

**2. COMPANY OVERVIEW**

The Company was incorporated on 22 October 1968 and thereafter its principle business activity involved the design and manufacture of heat transfer equipment. The Company is an Australian Stock Exchange Ltd ("ASX") listed entity that is currently suspended from trading.

On 9 January 2001 a receiver and manager was appointed by the Company's largest secured creditor at the time and the Company's securities were consequently suspended from trading on the ASX.

Subsequent to the Company being managed under a receivership arrangement, a voluntary administrator, Ferrier Hodgson was appointed on 29 September 2003. During the receivership and administration process, all assets of the Company were sold to various parties.

On 12 November 2003, a Deed of Company Arrangement was entered into with the existing creditors of the Company. Under the Deed of Company Arrangement, the creditors agreed to accept 8 cents in the dollar for all substantiated outstanding accounts whereby they would be provided consideration in new ordinary shares of the Company at the re-listed share price, being 20 cents per share (\$0.20).

On 19 August 2004, the shareholders of the Company approved a number of resolutions aimed at the re-structuring, re-capitalizing and potential re-listing of the Company on the ASX. Included within the Resolution held were approvals to change the Company's name from "Heat Exchangers International Limited" to "Labtam Limited", change of the Company's activities to include activities within the electronics industry, the acquisition of the Labtam Pty Ltd ACN 050 209 678 for cash and shares, the issue of new ordinary shares for settlement of debt and satisfying the Deed of Company Arrangement, approval of new shares and options pursuant to a prospectus, an Employee Share Option Plan and the adoption of a new constitution.

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On 28 October 2004, all matters pursuant to the Deed of Company Arrangement were satisfied. The voluntary administrator lodged the certificate of effectuation with ASIC. The appointment of the voluntary administrator was terminated upon the lodgement of this document.

During the period 29 October 2004 to 5 May 2005, the Company issued a prospectus for the purposes of acquiring the Labtam Pty Ltd business. The minimum subscription requirements of \$2.5 million were not met under the prospectus, and as a consequence, the Company withdrew the prospectus. All application monies have been sent back to investors who subscribed under the prospectus.

Subsequent to 5 May 2005, the Directors advertised for expressions of interest in the Company. Upon reviewing all tabled offers, the Directors believe that the Proposed Placement is the most favourable from the point of view of shareholders.

If Members approve the Proposed Acquisition, Loch Securities will become the Company's largest shareholder.

### 3. BACKGROUND TO THE PROPOSED PLACEMENT

By an agreement dated 25 May 2005 between the Company and Loch Securities (ACN 006 259 285) ("Loch Securities"), subject to shareholder approval, it was agreed for Loch Securities and or nominee to acquire 20 million shares in the paid up capital of the Company at an issue price of \$0.01 per share ("the Agreement").

A deposit of \$30,000 has been paid to the Company pursuant to the Agreement. The balance, being the sum of \$170,000, shall be paid to the Company within seven days of the Company's receipt of shareholder approval in respect of the issue of 20 million shares to Loch Securities.

Pursuant to the Agreement, Loch Securities provided an undertaking that the Company's existing shareholders will not be consolidated before re-listing and re-capitalisation on the ASX.

Pursuant to the Agreement, the Company has provided Loch Securities with letters of withdrawal from all existing contracts.

The funds raised by reason of the issue of 20 million shares to Loch Securities shall be applied to the extinguishment of existing creditors.

Upon obtaining shareholder approval and Loch Securities making payment of the issue price Loch Securities will seek to appoint three directors to the Company and all existing directors will resign. At the date of this Memorandum, Loch Securities have not identified the identity of the directors that it will seek to appoint. If Members approve the issue of 20 million shares, Loch Securities, as controller of the Company, will be able to control the composition of the board.

**4. THE RESOLUTIONS**

The Proposed Placement under which Loch Securities will acquire 20,000,000 ordinary shares in the paid up capital of the Company is conditional upon the Company obtaining Member approval as required by the Corporations Act and.

To satisfy the requirements of the Corporations Act, the Company has put forward for Members to consider the resolutions described in the attached Notice of General Meeting ("the Notice of Meeting").

**4.1 Resolution 1: Approval under the Takeovers Provisions**

It is proposed that Loch Securities will be issued with ordinary shares fully paid at an issue price of \$0.01 per share that rank equally with the Company's existing ordinary shares. The total number of shares to be issued if Resolution 1 is approved will be 20,000,000.

Section 606 of the *Corporations Act* prohibits the acquisition by a person of a relevant interest in the issued voting shares in a listed company if, because of that acquisition, that person's, or someone else's, voting power increases:

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

An exception to this prohibition is if the listed company has first obtained the approval of its members at a general meeting.

"Relevant interest" is extensively defined in the *Corporations Act*. It includes holding voting shares or being able to exercise control over voting shares, or having the power to dispose of, or control the disposal of, voting shares. It does not matter how remote the relevant interest is or how it arises. If two or more persons can jointly exercise one of these powers, each of them is taken to have that power.

Loch Securities Pty Ltd is a company incorporated under the laws of the State of Victoria. The sole director and sole shareholder of Loch Securities is Mr H L Purse. As the controller of Loch Securities, Mr Purse will acquire a relevant interest in the shares proposed to be issued to Loch Securities.

At the date of this Memorandum, Mr H L Purse holds no shares in the Company and does not have a relevant interest in any of the shares in the Company. If Members approve the issue of the shares to Loch Securities, Loch Securities voting power in the Company and Mr H L Purse's relevant interests in the Company will be 69.93%.

In addition to the detail set out in this Memorandum, Members should refer to the Independent Expert's Report annexed to this Memorandum when considering how to vote in respect of Resolution 1.

Resolution 1 is subject to Resolution 2 being passed.

**4.2 Resolution 2: Approval of Related Party Transaction**

Chapter 2E of the *Corporations Act* prohibits a public company from giving a financial benefit to a related party of the public company. A related party of a public company includes

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the directors of an entity that controls a public company and includes an entity that has reasonable grounds to believe that it is likely to become a related party of the public company.

A "financial benefit" is widely defined and includes a public company issuing securities. In determining whether or not a financial benefit is being given, the law requires that one looks to the economic and commercial substances and effect of the transaction, rather than just the legal form. Any consideration or contribution provided by the related party, on the other hand, must be disregarded, even if it is considered full or adequate.

Exceptions to this prohibition include where the public company first obtains the approval of its members in general meeting.

Resolution 2 seeks approval in respect of the shares to be issued to a related party (directly to Loch Securities and indirectly to Mr H L Purse).

Resolution 2 is subject to Resolution 1 being passed, as the issue of the Company's shares to the related party cannot proceed unless members approve the implementation of the Proposed Acquisition and approve the issue under the takeovers provisions of the *Corporations Act*.

The shares that are the subject of Resolution 2 are not separate or additional to the Company's shares the subject of Resolution 1 and are not a separate or additional issue of shares.

The related party to whom Resolution 2 would permit a financial benefit to be given is (directly) Loch Securities and (indirectly) Mr H L Purse.

The nature of the financial benefit is the issue of 20,000,000 ordinary shares in the paid up capital of Labtam Limited in consideration of the sum of \$200,000.

None of the Company's Directors have a material personal interest in the outcome of Resolution 2.

The passing of Resolution 2 would permit a financial benefit in the nature of shares in the Company to be issued to Loch Securities.

Resolution 2 is subject to Resolutions 1 being passed.

## 5. DIRECTORS' RECOMMENDATIONS

Mr Lloyd Gosling approved or voted in favour of the proposal to put the Resolutions to the Company's members and recommends that members vote in favour of Resolutions 1 and 2.

Mr Constantine Andrew Scrinis approved or voted in favour of the proposal to put the Resolutions to the Company's members and recommends that members vote in favour of Resolutions 1 and 2.

Mr Gary Gosling approved or voted in favour of the proposal to put the Resolutions to the Company's members and recommends that members vote in favour of Resolutions 1 and 2.

Mr Peter Camm approved or voted in favour of the proposal to put the Resolutions to the Company's members and recommends that members vote in favour of Resolutions 1 and 2.

Mr Adrien Wing approved or voted in favour of the proposal to put the Resolutions to the Company's members and recommends that members vote in favour of Resolutions 1 and 2.

## 6. OTHER RELEVANT INFORMATION FOR CONSIDERATION BY MEMBERS

The funds raised will be used to extinguish Labtam's existing creditors with a view to positioning the Company to provide further opportunities for shareholder approval.

Subject to the passing of the Resolutions, the Company may review its current activities of development, marketing and sale of contract electronic manufacturing solutions to establish whether other opportunities exist in the marketplace.

Members should have reference to the Independent Expert's Report and the matters set out in this Memorandum, including the balance of this section as it relates to elements of the approval of the Resolutions, when considering how to vote in respect of Resolutions 1 and 2.

Other than the information disclosed in this Memorandum and in the Independent Expert's Report, and taking into account information that has previously been disclosed to Members, the Directors do not believe that there is any other information that is reasonably required in order for members to make a decision with respect to the Resolutions 1 and 2.

## 6. GLOSSARY

"ASIC" means Australian Securities and Investments Commission.

"ASX" means the Australian Stock Exchange.

"Company" means Labtam Limited ACN 004 749 508.

"Directors" means the directors of the Company from time to time.

"Meeting" means the general meeting of the Company at which the Resolutions will be considered.

"Memorandum" means this Information Memorandum.

"Resolutions" means the resolutions put forward in the Company's Notice of General Meeting dated 4 August 2005 of which this Information Memorandum forms part.

**PROXY FORM**  
**LABTAM LTD**  
**ACN 004 749 508**  
**GENERAL MEETING**  
**4 August 2005 at 10.30am**

I \_\_\_\_\_  
of \_\_\_\_\_  
being a member of Labtam Limited appoint

of \_\_\_\_\_  
or if no person is named, the Chairman of the General Meeting my proxy to vote and act for me and on my behalf at the General Meeting of members of Labtam Ltd to be held on 4 August 2005 and any other day to which that General Meeting is adjourned or postponed.

My proxy is authorised to exercise all \_\_\_\_\_% of my voting rights. If two or more proxies are being appointed, the proportion of my/our total voting rights that this proxy is authorised to exercise is \_\_\_\_\_%. (Note on request the Company will provide additional proxy forms)

I direct my proxy to vote in the following manner:

No.	Resolution	For	Against	Abstain
1.	Approval under the Takeovers Provisions			
2.	Related party Transaction Provisions Approval			

If you have appointed the Chairman as your proxy and you do not wish to direct the Chairman how to vote, please place a mark in the box (below)

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.

The Chairman intends to vote all undirected proxies in favour of all resolutions.  
DATED \_\_\_\_\_ 2005

Signature of member/s (note if the member is a company, the proxy form should be executed by either two directors or one director and the company secretary)

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#### NOTES TO PROXY FORM

1. A member entitled to attend and vote at the General Meeting is entitled to appoint not more than two proxies.
2. A member who is entitled to cast two or more votes may appoint two proxies, in which case they may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints two proxies and the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes of the member. If the member appoints two proxies, neither may vote on a show of hands, but a proxy may demand or join in demanding a poll. If no directions are given the proxy may vote as the proxy thinks fit or may abstain from voting.
3. A proxy need not be a member of the Company. If a person attends a meeting both as a member and as a proxy for another member, such person will only be counted once on a show of hands.
4. The proxy form must be signed by the member or the member's attorney. Proxies given by corporations must be executed under seal or signed under the hand of a duly authorised officer or attorney.

To be valid, proxies must be received by the Company at the office of Lablam Limited at level 13, 500 Collins Street, Melbourne, Victoria or successfully transmitted by facsimile to the Company on 03 9614 0550 in either case no later than 48 hours prior to the commencement of the General Meeting.

# NEXIA ALEXANDER SPENCER

CHARTERED ACCOUNTANTS

ABN 26 825 729 942

Holder of Australian Financial Services  
Licence No: 247262

Level 14, 440 Collins Street  
Melbourne Vic 3000  
Telephone: (03) 9608 0100  
Facsimile: (03) 9670 8325  
Email: enquiry@nexiaas.com.au

15 June 2005

The Directors  
Labtam Limited  
C/- Level 13  
500 Collins Street  
MELBOURNE VIC 3000

Dear Sirs

## Independent Expert's Report

### 1 Introduction

#### 1.1 Background

On 25 May 2005, Labtam Limited ("Labtam" or "the Company") entered into a Share Placement ("the Placement Agreement") with Loch Securities Pty Ltd ("Loch") for Labtam to issue Loch 20,000,000 ordinary shares at \$0.01 per share, credited as fully paid ("the Proposed Transaction").

This report has been prepared by Nexia Alexander & Spencer Pty Ltd ("Nexia A&S") at your request to accompany the Notice of Meeting to be sent to shareholders to convene a General Meeting of Labtam to be held on or about 29 July 2005.

Labtam is an public company and whilst listed on the Australian Stock Exchange ("ASX"), its shares are currently suspended from trading. You have advised that the purposes of the Proposed Transaction is to:-

- o Provide funds for the Company to discharge its present liabilities; and
- o Provide funds for working capital;

#### 1.2 Outline of the Proposed Transaction

The principal terms of the Proposed Transaction, as set out in the Placement Agreement, are set out below.

- Labtam will issue Loch 20,000,000 share for a total application price of \$200,000 ("the Share Issue"); and
- The funds raised will be utilised for the purposes of satisfying Labtam's existing creditors<sup>1</sup>.

<sup>1</sup> the existing creditors are set out in an Annexure to the Placement Agreement and total \$197,049.



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***Labtam Limited  
Independent Expert's Report – June 2005  
Issue of Shares to Loch Securities***

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The Proposed Transaction is subject to a number of covenants and warranties including:

- Labtam shareholders approving the Share Issue;
- Labtam will apply the \$200,000 to payment of all existing creditors;
- Labtam will cancel any existing contracts;
- All existing Directors of Labtam will resign and 3 nominees<sup>2</sup> of Loch will be appointed as the only Directors of the Company.
- An undertaking by Loch that all existing Labtam shares will not be consolidated before any recapitalisation and re-listing on the ASX. In the event that a consolidation occurs prior to re-listing Loch must compensate existing shareholders to the difference between \$1,720,000 and the capitalisation of the existing shares on minimum listing price upon Loch re-listing Labtam on the ASX.

### **1.3 Corporate structure**

In the event that the Proposed Transaction is successfully completed, based on Labtam's current issued capital, Loch will hold approximately 69.93% of ordinary voting shares.

The Proposed Transaction will not in itself be sufficient to enable the re-listing of Labtam shares on the ASX. Labtam will still not have any business, activities or assets to satisfy the ASX Listing Rules. Loch has the stated intention of facilitating a re-listing of Labtam on the ASX. The acquisition of a business or assets to satisfy ASX Listing rules for a re-listing of Labtam will, most likely, require the further issue of shares by Labtam to the vendors of such business or assets. In accordance with the undertaking by Loch, existing non-associated shareholders will continue to hold 8.6 million shares in Labtam upon re-listing.

## **2. Purpose of our report**

The purpose of this Report is to assess whether the Proposed Transaction is fair and reasonable to the existing non-associated shareholders of Labtam. The Notice of Meeting and Explanatory Memorandum, to which this Report is attached, sets out fully the Resolutions required by members to approve the Proposed Transaction.

In summary the Corporations Act 2001 ("the Act")

- o prohibits the acquisition of an interest of more than 20% of the capital of a company without making a formal takeover offer, unless approved by members in general meeting Sections (606 and 611); and
- o provides a general requirement for the giving of a financial benefit to a related party of a public company to be approved by members.

The Proposed Transaction will result in Loch acquiring 69.93% of the capital of Labtam.

The Act and Australian Securities and Investments Commission ("ASIC") Policy Statement 74 requires that shareholders voting on such Proposed Transactions be provided with sufficient information to assess the merits of the proposal, including a report prepared by and

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<sup>2</sup> Loch has not yet specified whom it will nominate for appointment.

***Labtam Limited***  
***Independent Expert's Report – June 2005***  
***Issue of Shares to Loch Securities***

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independent expert stating whether the Proposed Transaction is fair and reasonable so far as the non-associated shareholders of the company are concerned.

This report has been prepared solely for the purpose of assisting the non-associated shareholders of Labtam in considering the Proposed Transaction.

We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose, including, but not limited to, investment or lending decisions in relation to Labtam.

### **3. Summary and Conclusions**

In our opinion, the Proposed Transaction **is fair and reasonable** to the non-associated shareholders of Labtam as at the date of this report.

Our opinion is based on information available as at the date of this report that has been provided to us, as set out in Appendix 2. In forming our opinion we have had regard to the advantages and disadvantages to non-associated shareholders if the proposal is approved and the advantages and disadvantages if it does not proceed.

The principal factors that we have taken into account in forming our opinion are summarised below and discussed in more detail in section 8 of this report. These include:-

*The value of the consideration being paid by Loch appears fair when considering the assessed value of the Labtam shares*

Currently Labtam has a net asset deficiency of approximately \$200,000. Accordingly, in the absence of a market to trade the shares the existing shares have no value. The issue of shares to Loch at \$0.01 per share is in excess of the current value of Labtam shares.

*The proposed transaction may result in existing non-associated shareholders receiving a significant premium for control.*

The Proposed Transaction will result in existing Labtam shareholders having a total interest in the Company of 30.07%. The issue to Loch for \$200,000 cash will mean that Loch is paying an immediate premium for control of approximately \$0.01 (1 cent) per share.

In addition Loch has undertaken to ensure that there is no further consolidation of existing shareholders interests on any recapitalisation and re-listing of the Labtam shares. If there is any consolidation of existing shares Loch will compensate shareholders for the difference between \$1.72 million and the capitalisation of the existing shares on minimum listing price upon Loch re-listing Labtam on the ASX.

Based on our view that the existing Labtam shares have no value, the issue to Loch may mean that on recapitalisation and re-listing of the Labtam shares on the ASX, the existing shareholders are receiving a premium for control of approximately \$1.92 million. This equates to approximately \$0.223 (22.3 cents) per share.

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***Existing Shareholders may miss out on a better proposal***

There is a potential opportunity cost that existing Labtam shareholders may miss out on a more advantageous proposal for recapitalisation and re-listing of Labtam shares, because of the Proposed Transaction. However the Directors of Labtam have advised that they have considered a number of proposals and there are currently no alternative proposals available to Labtam on more favourable terms than the Proposed Transaction.

We have also taken into consideration that the Proposed Transaction will enable settlement of existing creditors and accordingly prevent any possible liquidation of the Company and permanent loss of shares which would result therefrom.

**4. General**

**4.1 Independence of Disclosure of Interest**

Neither Nexia Alexander & Spencer Pty Ltd nor its partners or employees has any interest in the outcome of this issue other than in the preparation of this Report for which normal professional fees will be received. Fees are charged on an hourly basis based on personnel undertaking the engagement work. Our fees with respect to the preparation of this report are approximately \$4,000, exclusive of GST. Payment of those fees has been indemnified by Labtam.

Nexia Alexander & Spencer Pty Ltd has not within the previous two years provided any other professional services to either Labtam or Loch.

The Directors have agreed to indemnify and hold harmless Nexia Alexander & Spencer Pty Ltd and its employees from any claims arising out of misstatement or omission in any material or information supplied by the Directors to Nexia Alexander & Spencer Pty Ltd.

Consent to the inclusion of this Independent Experts Report with the Notice of Meeting and other documents to be sent to shareholders in the form and context in which it appears has been given. At the date of this report, this consent has not been withdrawn.

*Labtam Limited*  
*Independent Expert's Report – June 2005*  
*Issue of Shares to Loch Securities*

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#### **4.2 Other Matters**

The terms and expressions used in the Report have the same meaning as those used in the Notice of Meeting and Explanatory Statement to which this Report is attached.

We have not undertaken to update our report for events or circumstances arising after the date of this report.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including its appendices.

Yours sincerely,

**NEXIA ALEXANDER & SPENCER**

Holder of Australian Financial Services Licence No: 247262

**GARY GRACO**

**Authorised Representative**

***Labtam Limited***  
***Independent Expert's Report – June 2005***  
***Issue of Shares to Loch Securities***

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## **5. The Proposed Transaction**

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### **5.1 Summary**

On 25 May 2005 Labtam entered into a Placement Agreement with Loch. Under the terms of this agreement Labtam is to issue Loch 20 million Labtam ordinary shares at an issue price of \$0.01 per share. The aggregate consideration payable by Loch is \$200,000 payable in cash.

Loch has provided a binding deposit of \$30,000 and the balance of \$170,000 is payable within 7 days of shareholder approval of the Resolutions concerning the authority to issue the shares.

### **5.2 Conditions and Warranties to the Proposed Transaction**

The Agreement provides for a number of warranties and covenants including:

- Labtam's total liabilities are limited to \$197,049;
- Labtam will provide letters of withdrawal from existing contracts;
- Labtam obtaining approval of shareholders for the issue;
- Guarantee from Labtam directors that they will vote in favour of the Resolutions where they are able to exercise such votes;
- The appointment of three directors nominated by Loch and the resignation of existing directors.

Loch has provided an undertaking that existing shares will not be consolidated in any recapitalisation and before any re-listing of Labtam on the ASX. In the event that a consolidation occurs prior to re-listing on the ASX, Loch must compensate the holders of those shares to the difference between \$1,720,000 and the capitalisation of the existing shares on minimum listing price upon Loch re-listing Labtam on the ASX. Any such compensation will be paid by Loch to the shareholders on a pro-rata basis within six months of re-listing Labtam on the ASX.

### **5.3 Proposed Use of Funds**

The Agreement provides a warranty and covenant that Labtam will apply all of the funds provided by Loch towards the existing creditors.

In the event that shareholder approval is not forthcoming at the shareholders meeting to approve the proposal, Labtam is obliged to return the \$30,000 binding deposit within 28 days or otherwise issue Loch 3 million ordinary shares in Labtam immediately thereafter.

In the event that Loch fails to pay the \$170,000 balance of funds upon the issue of the securities the \$30,000 binding deposit shall be forfeited by Loch.

**Labtam Limited**  
**Independent Expert's Report – June 2005**  
**Issue of Shares to Loch Securities**

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**6. Scope of the Report**

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**6.1 Purpose of the Report**

The purpose of this Report is to assess whether the Proposed Transaction is fair and reasonable to the existing non-associated shareholders of Labtam. The Notice of Meeting and Explanatory Memorandum, to which this Report is attached, sets out fully the Resolutions required to be approved by members for the Proposed Transaction to proceed.

**6.2 Corporations Act – Takeover Provisions**

Section 606(1) of the Corporations Act 2001 ("the Act") prohibits the acquisition of an interest of more than 20% of capital of a company, without making a formal takeover offer. Section 611(7) of the Act provides an exemption to Section 606 if the Proposal Transaction is approved by a majority of shareholders at general meeting and no votes are cast in respect of the shares held by the associates.

The issue of the shares pursuant to the Proposal will mean Loch holds 20 million ordinary shares in the company, which will represent 69.93% of the shares on issue at the time. Therefore, the issue of shares to Loch requires approval of the Labtam shareholders that are not associated with the Proposed Transaction.

ASIC Policy Statement 74 ("PS 74") requires that shareholders voting on a Section 611 Resolution must be provided with sufficient information to assess the merits of the proposal, including a report prepared by either the independent directors or an independent expert stating whether the proposed issue is fair and reasonable so far as the non associated shareholders of the company are concerned.

**6.3 Corporations Act – Related Party transactions**

Chapter 2E, Section 208 of the Act provides a general requirement for the giving of a financial benefit to a related party of a public company to be approved by members, unless it falls within the exceptions set out in Sections 210 to 216 of the Act.

The Proposed Transaction will result in Loch nominees becoming Directors of Labtam. Notwithstanding Loch has not yet specified who will be its nominees, it has been assumed by Labtam that Mr H.L. Purse as a controller of Loch will be a related party. Accordingly the issue of shares to Loch would be deemed the giving of a financial benefit by Labtam to a related party.

Section 210 of the Act provides an exception to the requirement for member approval of the giving of a financial benefit is on terms that:-

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- Would be reasonable in the circumstances if the public company and the related party were dealing at arms length; or
- Are less favourable to the related party than reasonable arm's length terms.

Notwithstanding the Directors of Labtam consider that they have dealt with Loch and Mr Purse on arms length terms and could accordingly rely on the exception set out in Section 210 of the Act, the Directors have decided that the proposed transaction should be approved by members.

Additionally they have determined that the normal requirements of Chapter 2E of the Act should be complied with and that an Independent Experts Report commenting on whether the Proposed Transaction is fair and reasonable to the non-associated shareholders should be included with the Explanatory Memorandum in order for members to decide whether or not it is in the company's interests to pass the proposed resolution.

#### **6.4 Guidelines issued by ASIC on fair and reasonable.**

With respect to the meaning of fair and reasonable, ASIC has issued Policy Statements 74 and 75, which are applicable to acquisitions approved by shareholders.

PS 74 states that to determine whether the proposal is fair and reasonable the likely advantages and disadvantages to the shareholders of Labtam if the proposal is implemented must be compared to the likely advantages and disadvantages if the proposal is not implemented.

PS74 also states that the fairness and reasonableness should be judged in all the circumstances of the proposal. In essence, the proposal would be fair and reasonable if the shareholders of Labtam are better off if the proposal is implemented, that is the expected advantages to the shareholders of Labtam outweigh the disadvantages.

Although the term fair and reasonable has no real definition, over time a commonly accepted meaning has evolved. Fairness relates to price whereas reasonableness involves consideration of factors other than price.

Fairness generally involves comparison and the value of the consideration and the value that may be attributable to the securities, which are the subject of the transaction based on the valuation of the underlying business and assets.

The concept of reasonableness involves an analysis of factors other than fairness that non-associated shareholders might consider prior to voting on the proposal.

ASIC Policy Statements 74 and 75 also require the Independent expert to provide an opinion as to whether there is any premium for control being received as consideration as a result of the Proposal. In order to express an opinion as to whether any control premium is being received, the Independent expert needs to:

- Consider whether there has been any change control; and
- Quantify the control premium.

If there is a premium being received the higher the premium the greater the benefit for shareholders, however, any such benefit may be offsetting against a change of control.

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## **6.5 Limitations of the Report**

This Report has been prepared at the request of the directors for the purposes of assisting non-associated shareholders in their decision on whether or not to vote in favour of the Proposed Transaction.

This report is not intended to serve any other purpose and should not be relied upon by any other person for any other purpose in preparation of this report. Nexia A&S has relied upon financial and other information provided by the Company. We believe that the information provided was reliable, complete and not misleading and there is no reason to believe that any material facts have been withheld however, we have not conducted any due diligence of our own to assess the correctness or completeness of this information.

The opinion of Nexia A&S is based on economic market and other conditions prevailing on the date of this report, such conditions can change significantly over a relatively short period of time.

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## **7. Profile of Labtam**

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### **7.1 Company Overview**

Labtam (formerly named Heat Exchange International Limited) was incorporated on 22 October 1968.

The company was listed on the Australian Stock Exchange ("ASX") on 18 February 1994.

Full details of the Company's history and the circumstances leading to its present financial position are set out in Section 2 of the Explanatory Memorandum to which this Report is attached

During the last 4 1/2 years the company has been under various external administrations and more recently failed to achieve a recapitalisation and re-listing of the shares of the ASX.

At the date of this report the company has no activities and no resources. The current Statement of Financial Position of the Company is set out below at 7.3. It discloses a net asset deficiency and no means of satisfying creditors incurred during a proposed capital raising in October 2004.

On 25 May 2005 Labtam entered into a Placement Agreement with Loch for the purposes of recapitalising the company. The principle terms of the Placement Agreement are set out above at 1.2 and 5.2. In summary, the Proposed Transaction provides for the issue of 20 million shares in exchange for the payment of \$200,000 by Loch.

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**7.2 Share Capital**

The Company currently has 8,600,000 fully paid shares on issue. A reconciliation of the movement in capital between 30 June 2004 and 25 May 2005 is as follows:-

	No.	\$
Audited Balances - 30 June 2004	27,520,274	7,192,270
Consolidation on 1 for 100 - Sept 2004	275,203	
Application to Accumulated Losses Issue to Deed Creditors	217,415	(7,192,270)
Seed Investor Issue	4,500,000	300,150
Seed Investor Issue - Oct 2004	1,107,382	141,380
Issue to Secured Creditor on Debt conversion	2,500,000	
<b>Unaudited Balances - 25 May 2005</b>	<b>8,600,000</b>	<b>441,530</b>

Existing Shareholders holding more than a 5% Interests are:-

Shareholder	No. of Shares	% Issued Capital
State Automation Pty Ltd	899,550	10.46%
Astra Glen Pty Ltd	865,640	10.07%
Contelite Pty Ltd	865,640	10.07%
Springbuild Pty Ltd	499,745	5.81%
Mr Colin Flynn	499,775	5.23%
Michelle Sammut	449,775	5.23%
	<b>4,130,065</b>	

In total there are 593 Existing Shareholders in the Company and at 5 May 2005 the spread of shareholders was as follows:-

Ranges	No. of holders	No. of shares	% Issued Capital
1 - 1000	467	69,252	0.81%
1001 - 5000	34	78,900	0.92%
5001 - 10000	11	93,775	1.09%
10001 - 100000	62	1,543,460	17.95%
100001 and Over	19	6,814,614	79.24%
<b>Total</b>	<b>593</b>	<b>8,600,000</b>	<b>100.00</b>

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The following table summarises the affect on shareholders if the Proposed Transaction is implemented:

Shareholder	No. of Shares	Shareholding %
Existing shareholders	8,600,000	30.07%
Loch Securities Limited	20,000,000	69.93%
<b>Total</b>	<b>28,600,000</b>	<b>100.00%</b>

The Directors of the Company hold voting interests in 1,015,565 ordinary shares, representing 11.81% of the total voting shares.

Under the terms of the Placement Agreement, all directors undertook to vote in favour of the Proposed Transaction to the extent they are able to exercise votes. The Explanatory Memorandum, at Section 5, sets out each of the Director's recommendations to existing non-associated shareholders.

### 7.3 Financial Position

Set out below is a summary of the last audited financial position of the Company (being as at 30 June 2004) and unaudited financial position as at 25 May, 2005. The summary also sets out the movements in assets and liabilities and notes supporting the material transactions during the period.

	Audited 30-Jun-04 \$	Movements \$	Notes	Unaudited 25-May-05 \$
<b>Current Assets</b>				
Bank	-	-	5, 6 & 7	-
<b>Non Current Assets</b>				
Plant & equipment (computer)	3,500			3,500
<b>Total Assets</b>	<b>3,500</b>			<b>3,500</b>
<b>Current Liabilities</b>				
Payables	1,344,352	(1,147,303)	3, 4, 6, & 7	197,049
<b>Total Liabilities</b>	<b>1,344,352</b>			<b>197,049</b>
<b>Net Deficiency of Assets</b>	<b>(1,340,852)</b>			<b>(193,549)</b>
<b>Equity</b>				
Share Capital	7,192,271	(6,750,740)	1 to 5	441,531
Reserves	1,468,116			1,468,116
Accumulated Losses	(10,001,238)	7,898,042	2, 3, 4 & 6	(2,103,196)
	<b>(1,340,851)</b>			<b>(193,549)</b>

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**Notes:**

1. Consolidation of the Issued shares on a 1 for 100 basis.
2. Application of share capital to accumulated losses \$7,192,270 - per shareholder approval
3. Issue of 271,415 ordinary shares and cancellation of claims per share to creditors pursuant to the Deed of Company Arrangement
4. Issue of 2,500,000 to AXE Limited at \$ for conversion of secured debt
5. Issue of 1,107,382 shares at average of 12.8 cents per share to Seed Investors
6. Costs of \$337,763 associated with recapitalisation, prospectus issue and administration to May 2005
7. Payment of post Deed creditors from available cash resources

Nexia A&S has not performed any audit or other procedures to verify the unaudited financial position at 25 May 2005 and have relied upon information provided by the Director's.

#### **7.4 Proposed Activities after the Proposal is Complete**

Should the proposal proceed and Loch assumes control of the Company, based on the Placement Agreement, we understand that it is the intention of Loch to source suitable activities for the Company to enable a recapitalisation and re-listing of the Company on the ASX.

We have not been provided with any details from Loch as to the actual intentions or whether any business or activities have yet been identified and how the recapitalisation and re-listing may proceed or the timing thereof.

Loch has provided limited information to the directors of Labtam other than it is a privately owned company and its principal activities involve the trading of securities on prescribed stock exchanges, corporate restructuring and listed public company equity financing and underwritings.

Nexia A&S has not conducted any due diligence on Loch or its director(s) or shareholder(s) and accordingly expresses no opinion as to the resources or experience of Loch or its nominees to facilitate a recapitalisation and re-listing of Labtam on the ASX.

As noted in the Explanatory Memorandum, Loch has provided an undertaking to the Company that the existing shares will not be consolidated before any recapitalisation or re-listing on the ASX, or in the event that there is such consolidation the holders will be compensated based upon the difference between \$1.72 million and the capitalisation of the existing 8.6 million shares on minimum listing price.

The Agreement does not specify the form of compensation, but provides that it will be on a pro-rata basis to existing shareholders within six months of re-listing of Labtam on the ASX by Loch.

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## **8. Evaluation of the Proposed Transaction**

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### **8.1 Basis of Assessment**

In assessing whether a proposal is fair and reasonable from the perspective of the shareholders, we have had regard to the criteria set out in PS 74. PS 74 directs an expert preparing a Section 611 report to consider all the circumstances of the proposal,

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and compare the likely advantages and disadvantages to non associated shareholders if they vote in favour of the proposal to the advantages and disadvantages to those shareholders if they do not.

The following factors have been considered when evaluating whether the proposal is fair and reasonable to existing Labtam shareholders.

- o the financial impact of the proposal on Labtam;
- o the alternatives available to Labtam if the proposal does not proceed, including the availability of funding from alternative sources;
- o the value of securities being issued being compared with the value of the consideration to be received and the value of the securities should non associated shareholders vote in favour of the proposal;
- o the extent of any premium for control being received by Labtam; and
- o any other factors which may have a material impact.

## 8.2 Assessment of Fairness

In forming our opinion on whether the Proposed Transaction is fair to the non associated existing shareholders we considered the value of the shares to be issued by the Company.

In the absence of a quoted price or trading in Labtam shares, we consider that the net asset backing of the shares at the date hereof provides the most useful measure for assessing the value of existing shares and the value after the Proposed Transaction proceeds.

As noted above at 7.3, Labtam presently does not own any operating assets or business activities and has a net asset deficiency of \$193,549. If the Proposed Transaction is approved and the warranties and undertakings in the Placement Agreement are observed, Labtam will have an improved net asset backing per share than before the Proposed Transaction. A comparison of the net asset backing per share before and after the Proposed Transaction is detailed below:-

	Unaudited 25 May 2005 PRE Proposed Transaction	Unaudited 25 May 2005 POST Proposed Transaction
Net Assets (Deficiency)	\$ <u>(193,549)</u>	\$ <u>6,451*</u>
Shares on Issue	8,600,000	28,600,000
Net Asset Backing (Deficiency) per share	(\$ 0.023)	\$ 0.000

\* no account has been taken for costs which have or may be incurred with respect to the preparation of this Report, the Explanatory Memorandum or the holding of the general meeting of shareholders to vote on the Proposed Transaction. The costs would not have any significant impact on the calculated Unaudited Net Asset Backing per share POST the Proposed Transaction.

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The Net Asset Backing per share after the Proposed Transaction calculated on the basis of the issue of shares to Loch for a total cash consideration of \$200,000.

As the Proposed Transaction gives rise to an Improvement in the Net Asset Backing per share (which we consider the best guide to value) of shares held by the non-associated existing shareholders, we are of the opinion that the Proposed Transaction is fair.

### **8.3 Assessment of Reasonableness of the Proposed Transaction**

We have considered the other likely advantages and disadvantages for the non-associated shareholders if the Proposed transaction proceeds.

#### ***8.3.1 Advantages of the Proposed Transaction***

##### ***Trading Liquidity of Shares***

Since the suspension of shares from ASX in September 2003 there has been no market available for ordinary shares of Labtam to be traded. The Proposed Transaction may provide Labtam with an opportunity to re-list its shares on the ASX. This may allow Labtam shareholders an opportunity to sell their shareholdings at a value greater than the current net asset backing or the net asset backing immediately post the Proposed Transaction.

As noted above we have not been advised of any proposals by Loch for the recapitalisation or re-listing of the Company's shares. As also noted we have not conducted any due diligence to determine Loch's ability to resource and/or otherwise facilitate such a recapitalisation and re-listing.

Pursuant to the undertakings by Loch in the Placement Agreement existing shareholders have in effect been underwritten a minimum price of \$0.20 (20 cents) per share on the re-listing of the Company on the ASX.

##### ***Source of Funds to satisfy creditors***

The issue of shares for cash will enable the immediate settlement of all outstanding creditors amounting to approximately \$197,000 and avoid possible liquidation of the Company.

Of the total creditors, only \$43,000 relates to outstanding consulting fees of entities associated with the Directors. The majority of the balance remains payable to professional advisers for work associated with the corporate reorganisation and prospectus issued in October 2004. There cannot be a guarantee that any of these creditors will hold off recovery action for a further extended period.

In the absence of other resources recovery action by creditors is likely to lead to appointment of a liquidator to Labtam, permanently eroding any prospect of shareholders seeing value or a market for their shares via a re-listing of the Company.

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***8.3.2 Disadvantages of the Proposal***

*Dilution of Existing Shareholders Interest and control of the Company will transfer to Loch.*

Currently, existing shareholders of the company control all of the issued capital. The implementation of the Proposed Transaction will have the effect of diluting the interests of existing shareholders of Labtam to 30.07%.

Accordingly, existing shareholders would lose control of the company to Loch. However, we point out that:

- the current shares have no value as they are unable to be traded; and
- Loch potentially has greater capacity to source a viable business and / or assets for the Company and obtain re-listing of the shares than the current directors; and
- Loch a paying premium for control (refer 8.4 below).

***Potential Opportunity cost to Labtam shareholders***

There is a risk that if the Proposed Transaction is approved and implemented that Loch may not be able to successfully recapitalise and re-list the Company's shares. However the Director's have advised that expressions of interest were sought and that there are currently no alternative proposals available to Labtam with terms more favourable than the Proposed Transaction.

***8.3.4 Implications if Proposal does not proceed***

If the Proposal does not proceed the implications are considered to be:-

- a continued inability to trade shares; and
- there may be no other options for raising funds to discharge the remaining obligations of the Company. If the remaining creditors of the Company seek a liquidation then the potential value of the company could be lost.

Weighing up the advantages and disadvantages of the proposal we are of the opinion that the transactions is reasonable for existing non-associated shareholders of the Company.

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**9. Control Premium**

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The Proposed Transaction will result in the existing non-associated shareholders diluting their interest in the Company from 100% to 30.07%, with Loch owing 69.93%. Accordingly control of the Company will pass from the existing shareholders to Loch.

ASIC guidelines require the Independent Expert to assess whether a premium for control is included in the consideration payable by Loch for the ordinary shares that will be issued.

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### **9.1 Premium on Issue**

Based on the above analysis of the assessed value of each Labtam share both PRE and POST the Proposed transaction, we are of the opinion that there is an immediate control premium being paid by Loch of approximately \$0.01 (1 cent) per share on the issue of shares. Accordingly all of the consideration being paid represents control premium.

### **9.2 Potential further premium on Re-listing.**

The terms of the Placement Agreement provide that existing non-associated shareholders will not be diluted below the proposed 30.07% upon any recapitalisation and re-listing of the Company's shares on the ASX.

In the event of any such dilution existing non-associated shareholders will be paid the difference between \$1.72 million and the value of the shares on re-listing. In effect Loch has underwritten a value of \$1.72 million to existing shareholders on the re-listing of the Company on the ASX.

The underwriting gives a value to the existing 8.6 million shares of \$1.92 million, being the existing net asset deficiency of \$193,000 and the guaranteed \$1.72 million value on re-listing. This equates to existing non-associated shareholders receiving a further \$0.223 (22.3 cents) per share.

We again point out that we have not conducted any due diligence on the history or state of financial affairs of Loch and accordingly do not express any opinion on the ability of Loch to make payment of the \$1.72 million, should the need arise.

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## **10. Opinion**

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The current value of Labtam shares is nil. The Company has no assets or other resources and presently no prospects of increasing the value of the shares above nil. The Directors have examined submissions from various parties and are of the view that the Proposed Transaction provides best immediate and long-term prospects. Accordingly there is little, if any, risk to the existing non-associated shareholders in approving the Proposed Transaction.

Implementation of the Proposed transaction may enhance the prospects of the Company eventually being recapitalised and re-listed. In the event the Company is re-listed by Loch the value of the existing non-associated shareholders interests is effectively guaranteed to \$1.72 million – or approximately 20 cents per share.

**In our opinion the Proposed Transaction is fair and reasonable to the existing non-associated shareholders.**

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## **APPENDIX A**

### **Statement of Qualifications, Independence, Declarations and Consents**

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#### **Qualifications**

Nexia Alexander & Spencer Pty Ltd ("Nexia A&S") is a Melbourne based accounting, audit and business advisory practice and is a licensed investment adviser within the terms of the Corporations Act 2001. Senior partners at Alexander & Spencer specialise in and regularly perform corporate and asset valuations and advise on company restructures, acquisitions and proposals. Nexia A&S, acting through different partners also performs audit on the accounts of Australian companies.

The persons responsible for preparing this report on behalf of Nexia A&S are Gary Graco (Dip. Bus Studies - Accounting, ACA) and Tom Borsky (B. Ec. FCA), each of whom has a significant number of years of experience in relevant corporate advisory matters including valuations and independent expert reports.

#### **Independence**

Nexia A&S considers itself to be independent in terms of Practice Note 42 issued by ASIC relating to independence of experts and has developed and issued an opinion and report on an unbiased basis.

Nexia A&S and its related entities do not have at the date of this report and have not had within the previous two years, any shareholding in the Company nor Loch Securities Pty Ltd and have not provided any other professional services to Labtam or Loch Securities Pty Ltd. None of Nexia A&S, Gary Graco, Tom Borsky, nor any other member, director, partner or employee of any of Nexia A&S has any interest in the opinion reached by Nexia A&S except that we are entitled to receive professional fees for the completion of this report based on time incurred at normal professional rates. With the exception of these fees no parties will receive any other benefits, whether directly or indirectly, for or in connection with issuing this report.

#### **Disclaimers**

This report should not be used or relied upon for any purpose other than as an expression of Nexia A&S opinion of the fairness and reasonableness of the Proposed Transaction. Nexia A&S expressly disclaims any liability to any person who relies on our report, or seeks to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

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Appendix 2 identifies the sources of information upon which this report has been based. Whilst Nexia A&S has no reason to believe that such information is not reliable and accurate, it has not caused such information to be independently verified or audited in any way. Inquiry, analysis and review have brought nothing to our attention to indicate a material misstatement, omission or lack of reasonable grounds upon which to base our opinion.

The opinions given by Nexia A&S in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. This report has been prepared with care and diligence. However, no responsibility is accepted by Nexia A&S or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Nexia A&S from consequences related to an opinion expressed recklessly or in bad faith.

Advanced drafts of this report were provided to the Directors of the Company. Minor changes for factual content were made to this report. There was no alteration to the methodology or conclusions reached as a result of discussions related to drafts of the report.

Nexia A&S's opinion is based on prevailing conditions at the date of this report including market, economic and other relevant circumstances. These can change over relatively short time period and any subsequent changes in these conditions in the value either positively or negatively

#### **Indemnity**

The Company has agreed that it will indemnify Nexia A&S and its employees and officers in respect to any or all losses, claims, damages and liabilities arising as a result of or in connection with the preparation of this report.

#### **Consent**

This report has been prepared at the request of the Company and may accompany the Notice of Meeting to be given to shareholders.

Nexia A&S consents to the issuing of this report and the form and context to which it is to be included with the Notice of Meeting. Other than the report, Nexia A&S has not been involved in the preparation of the documents or other aspects of the Proposed Transaction or the Notice of Meeting to which this report may be attached. Accordingly, we take no responsibility for the content of the Notice of Meeting or the Proposed transaction as a whole. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without prior written consent of Nexia A&S as to the form and context to which it appears.

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## **APPENDIX B**

### **Sources of Information and Reliance**

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During the course of this engagement, we were provided with information in respect of Labtam, and we obtained additional information from other public sources. Information and documents used and principally relied upon by us included the following:

- Annual Report of Labtam for the year ended 30 June 2004
- Labtam Prospectus dated 29 October 2004
- Placement of Agreement dated 25 May 2005
- Heads of Agreement dated 30 January 2004 between the Company, Moonlighting Limited, Bytecraft Automation Pty Ltd and Labtam Pty Ltd in relation to the acquisition of the businesses of Bytecraft and Labtam Pty Ltd and other matters concerning corporate restructuring and recapitalisation of the Company.
- Deed of Company Arrangement dated 14 November 2003
- Report to Creditors by Ferrier Hodgson dated 16 October 2003 in relation to the proposed Deed of Company Arrangement
- Management Financial Report as at 25 May 2005
- Top 20 Shareholders Report and Shareholder Ranges Report dated 5 May 2005 produced by ASX Perpetual Registrars
- Discussions with Mr Adrian Wing, director of Labtam
- Labtam ASX announcements for the previous 12 months

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**APPENDIX C**

**Nexia Alexander & Spencer Pty Ltd Financial Services Guide**

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This Financial Services Guide is dated 15 June 2005.

**1. About us**

Nexia Alexander & Spencer Pty Ltd (ABN 25 825 209 842, Australian Financial Services Licence no 247262) ("Nexia A&S") has been engaged by Labtam Limited ("Labtam") to provide a report in the form of an Independent Experts Report (the "Report") for inclusion with the Notice of Meeting of Shareholders to be held on or about 29 July 2005 to consider resolutions associated with the proposed the issue of 20,000,000 shares to Loch Securities Pty Ltd.

You have not engaged us directly but have been provided with a copy of the Report as a shareholder because of your connection to the matters set out in the Report.

**2. This Financial Services Guide**

This Financial Services Guide ("FSG") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about Nexia A&S generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

**3. Financial services we are licensed to provide**

Our Australian Financial Services Licence allows us to provide general financial product advice in relation to various financial products such as securities, interests in managed investment schemes, and superannuation to retail and wholesale clients.

**4. General financial product advice**

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the Report 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.

**5. Fees, commissions and other benefits we may receive**

Nexia A&S charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages Nexia A&S 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 Report our fees are approximately \$4,000 excluding GST. Directors or employees of Nexia A&S, Nexia Alexander & Spencer, or other associated entities, may receive partnership distributions, salary or wages from Nexia A&S.

**6. Associations with issuers of financial products**

Nexia A&S and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, Nexia Alexander & Spencer

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may be the auditor of, or provide financial services to, the issuer of a financial product in the ordinary course of its business.

Nexia A&S currently does not provide any other professional services to Labtam or Loch Securities Limited and has no relationship with any of those companies' directors.

**7. Complaints**

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavor to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

**8. Contact Details**

Nexia A&S can be contacted by sending a letter to the following address:

Kevin Mullen  
Nexia Alexander & Spencer Pty Ltd  
Level 14, 440 Collins St, Melbourne, Vic, 3000