



TAFMO Limited
Level 8, 342 Flinders Street
Melbourne, 3000
Australia
Phone: +61 3 9018 6824
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ABN: 94 109 766 592

2 August 2005

Dear Shareholder

Enclosed with this letter are documents setting out details of a resolution of the shareholders of TAFMO Limited (**'Company'**) to approve the issue of options (to subscribe for ordinary shares in the capital of Company) under the Company's Employee Option Plan to the following directors: Philip Course, Hatim Tyabji and David Skelton (the **'Directors'**).

A meeting of the shareholders has been called for Thursday 25 August 2005 to vote on the resolution.

The Company recently adopted an Employee Option Plan (**'Plan'**). Under that Plan it is proposed that options (to subscribe for ordinary shares in the capital of Company) will be offered to certain directors and employees of the Company. In general, exercise of the options will be linked to the office held or employment and the achievement of performance benchmarks.

In the case of each of the Directors, the terms and conditions of their appointment included participation at an agreed level in the Plan. The offer of participation in the Plan was a key term in the Company being able to attract the Directors to join the Company. While your directors believe the issue of options to the Directors will benefit the Company and is reasonable in the circumstances of the Company, your directors consider it appropriate that the shareholders vote on the proposed issue of the options to the relevant Directors prior to the issue taking place.

The reasons why your directors believe the issue of options to the Directors under the Plan benefits the Company and its shareholders are set out in the explanatory statement which is attached to, and forms part of, the Notice of Meeting.

Your directors encourage shareholders to read the material set out in the explanatory statement and to vote on the resolution set out in the Notice of Meeting.

If you cannot attend the general meeting, you are strongly urged to complete the proxy form and return it (see proxy form for details) as soon as possible and in any event by no later than 9.00am Melbourne time on Tuesday 23 August 2005.

Yours sincerely
TAFMO Limited

A handwritten signature in black ink, appearing to read "Michael Jefferies", written over a horizontal line.

Michael Jefferies
Chairman

This is an important document that requires your attention

If you are in doubt how to deal with it, please consult your financial or other professional adviser.

TAFMO Limited

ACN 109 766 592

Notice of Meeting

and

explanatory statement

Date: Thursday 25 August 2005

Time: 9.00am

Location: Minter Ellison, Level 23 Rialto Towers, 525 Collins
Street, Melbourne

TAFMO Limited

ACN 109 766 592

Notice of general meeting

Notice is given that a general meeting of the members of TAFMO Limited ('**Company**') will be held on Thursday 25 August 2005 at 9.00 am Melbourne time at the offices of Minter Ellison, Level 23 Rialto Towers, 525 Collins Street, Melbourne, Victoria.

Business

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

That, for the purposes of Chapter 2E of the *Corporations Act 2001(Cth)*, the members approve the issue by the Company of options to subscribe for ordinary shares in the capital of the Company to the following directors of the Company:

- (i) Philip Course;
- (ii) David Skelton; and
- (iii) Hatim Tyabji,

in the number and on the terms set out in the explanatory statement which accompanies and forms part of this Notice of Meeting.

Notes:

The additional information relating to the resolution set out in the explanatory statement accompanying this Notice of Meeting should be read together with, and forms part of, the Notice of Meeting.

Voting:

1. The Company will disregard any votes cast on the Resolution by Philip Course, David Skelton and Hatim Tyabji (collectively '**the Directors**') or any associate of any one or more of the Directors.
2. However, the Company need not disregard a vote if :
 - (i) it is cast by a person as a proxy for a person who is entitled to vote and is cast in accordance with the directions on the proxy form; or
 - (ii) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote and is cast in accordance with a direction on the proxy form to vote as the proxy decides.
3. The Company has determined, in accordance with regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)*, that the Company's shares will be taken, for the purposes of the general meeting, to be held by the persons who held them as at 9.00am Melbourne time on Tuesday 23 August 2005. Accordingly, only those persons are entitled to attend and vote (if not excluded) at the meeting.

Proxies:

1. A shareholder who is entitled to vote at the meeting may appoint not more than two proxies to attend and vote at the meeting on that shareholder's behalf.
2. If a shareholder appoints two proxies and the appointment does not specify the proportion or number of the shareholder's votes each proxy may exercise, each proxy may exercise half the votes.
3. A proxy need not be a shareholder of the Company.
4. If you require an additional proxy form, the Company will supply it on request.
5. The proxy form and the power of attorney or other authority (if any) under which it is signed (or a certified copy) must be received by the Company, at least 48 hours before the time for holding the meeting, at:
 - (a) the Company's registered office, Level 8, 342 Flinders Street, Melbourne, Victoria, 3000; or
 - (b) + (61 3) 9018 6890, being a fax number at the Company's registered office.
6. Proxies given by corporate shareholders must be executed in accordance with their constitutions, or signed by a duly authorised officer or attorney.
7. A proxy may decide whether to vote on any motion, except where the proxy is required by law or the Company's constitution to vote, or abstain from voting, in his or her capacity as proxy. If a proxy is directed how to vote on an item of business, the proxy may vote on the item only as directed. If a proxy is not directed how to vote on an item of business, the proxy may vote as he or she thinks fit.
8. If a shareholder appoints the chairperson of the meeting as the shareholder's proxy and does not specify how the chairperson is to vote on an item of business, the chairperson will vote, as proxy for the shareholder, in favour of that item on a poll.

Dated: 2 August 2005

By order of the Board

David Skelton
Secretary

Explanatory Statement

Important notice

This explanatory statement contains an explanation of, and information about, the proposal to be considered at the general meeting of the Company on Thursday 25 August 2005. It is given to the shareholders to help them determine how to vote on the resolution set out in the accompanying notice of meeting.

Shareholders should read this explanatory statement in full because individual sections may not give a comprehensive review of the proposal contemplated in this explanatory statement. This explanatory statement forms part of the accompanying notice of meeting and should be read in conjunction with the notice of meeting.

If you are in doubt about what to do in relation to the proposal, you should consult your financial or other professional advisor.

This explanatory statement is dated 2 August 2005.

1. Introduction

The general meeting referred to in the accompanying Notice of Meeting is being held so that the Company's shareholders can consider the resolution set out in the Notice of Meeting. If the resolution is approved, the Company will proceed with the issue of the options to the Directors as contemplated in this explanatory statement.

2. Summary of the proposal

Approval of issue of options to Directors

The Company proposes to issue the following options to the Directors listed in the table below on the terms and conditions set out below and in Appendix A:

Name	Position	Number of Options	Exercise price	Vesting	Final Exercise Date
Philip Course	Chief Executive Officer & Managing Director	5,600,000	\$0.60	50% vest immediately, with the balance vesting annually over the period to 1 July 2008.	Earlier of 5 years from Date of Grant and 180 days from termination of employment.
David Skelton	Chief Financial Officer & Finance Director	550,000	\$0.60	100% vest immediately.	22 February 2006, being 180 days from termination of employment.

Hatim Tyabji	Non-executive Director	2,000,000	\$0.60	100% vest immediately	Earlier of 5 years from Date of Grant and 180 days from termination of directorship.
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The maximum number of options for which approval is sought is 8,150,000 being the total of the options to be issued to the Directors if the resolution is approved.

3. Background and reasons for the proposal

Employee Option Plan

Generally, companies adopt employee option plans for a number of reasons:

- to align the interests of their employees, especially senior management, with the performance of the company and the interests of its shareholders;
- to provide the employees with a direct equity interest in the company;
- as a means of attracting and retaining key staff;
- to reward the employees in a form that does not involve a cash payment to the employees;
- to provide the employees with an incentive to improve (and maximise) the company's performance; and
- to provide leverage to the employees in the event of good performance by the company.

The circumstances of the Company are similar to those of many other new and growing companies. The Company wishes to directly involve its employees in its business and to reward them by reference to the performance of the Company. Further, it wishes to preserve its cash for use in growing its business.

Accordingly, the directors of the Company decided to implement an Employee Option Plan ('Plan'). Their decision to adopt the Plan was driven by the same factors as those outlined above which underpin the adoption of employee option plans generally.

The terms of the Plan are similar to the equivalent plans adopted by other companies. A copy of the full terms of the Plan will be sent free of charge to any shareholder on request. A summary of the terms of the options to be issued to the Directors are set out in Appendix A to this Explanatory Statement.

Granting options to Directors

It is vital to a dynamic and growing company that it be managed by highly qualified and motivated directors. In order to attract appropriate and experienced people to its senior management positions, the Company had to offer a remuneration package commensurate with the level of skill and experience of the persons that it required. The Company has been successful in attracting directors who have proven themselves in senior managerial positions in major organisations both locally and internationally. A summary of their details is as follows:

Philip Course

Philip is the Company's Chief Executive Officer and Managing Director.

Philip has been an associate lecturer in international business, facilitated International management seminars as well as founded several businesses. He has worked in senior

commercial roles with payment company Globeset, Hewlett Packard subsidiary VeriFone, Intellect, and as an independent payment systems consultant.

Philip speaks fluent Thai, semi fluent Mandarin Chinese and has worked for the last 10 years across Australia, Asia Pacific, U.S.A, South America and Europe. Philip will spearhead the Company's expansion overseas.

Shareholders should note that, in the case of Mr Course, if the issue of the options to him is approved by the shareholders, the Company intends to discharge its obligations to issue the options by making an irrevocable offer to issue the options to him. The terms of the offer will enable him to accept the offer at any time until 5.00pm on 1 July 2006. It is to be noted that any delay in acceptance of the offer will not impact the terms or performance benchmarks applicable to the vesting of any of the options that would ordinarily vest in Mr Course in respect of the 2005 / 06 financial year.

David Skelton

David joined the Company as Finance Director, Company Secretary and Chief Financial Officer on 1 January 2005. David has recently given notice of his intention to leave the Company to pursue other business interests. Under the terms of his employment arrangements with the Company, subject to shareholder approval, David is entitled to 1,100,000 options in the Company, 50% which vested immediately (as salary sacrifice) and the balance to vest over time. As David has given notice of his resignation and is shortly to leave the Company, the resolution relates only to the issue of the 550,000 options that vested immediately. The resolution is put in order for the Company to fulfil its contractual obligations to him.

David has held senior finance, operations, and business development roles in both established and emerging companies in the media, communications and IT sectors. During his period with the Company, David has assisted in the development of the Company's financial and management reporting systems and operational processes that followed the spin-off from Intellect Holdings Limited last year. David leaves TAFMO for a senior management role in a listed media company with the best wishes of the Board.

Hatim Tyabji

Non-Executive Director

Hatim is a distinguished business manager with an outstanding record of adding shareholder value in the technology sector. By creating the world's first virtually run company, Hatim took the market capitalization of VeriFone from \$30 million to \$1.5 billion.

Among other credits, he holds the Point Of Sale (POS) Industry's Lifetime Achievement award, the Academy of Management's Distinguished Executive of the Year Award and an honorary doctorate from the State University of New York.

Hatim is currently chairman of Bytemobile, DataCard Group and serves on the boards of Best Buy (NYSE), eFunds (NYSE), as well as being a trustee of the Carnegie Institute and ambassador-at-large for Benchmark Capital.

Under his services agreement with the Company, Hatim has three key responsibilities:

- strategic consulting to assist the Company in defining, refining and executing its business strategy;
- assist the Company to identify profitable revenue generating business opportunities; and

- fiduciary duties.

Each year he is required to attend in person at least four two-day board meetings, one three-day planning session and be directly involved in visits to customers to make introductions or aid the sales process.

Directors' Remuneration

For their involvement in the day to day management of the Company, the executive officers, Philip Course and David Skelton, are paid a base rate supplemented by the opportunity to earn a bonus (aligned to the delivery of specific improvements in shareholder value). As a non-executive director, Hatim Tyabji is paid director's fees only.

The current remuneration agreed to be paid to each of the Directors is summarised below (on the assumption that the options are granted to Directors):

Remuneration component	Philip Course (Managing Director)	David Skelton (Finance Director)	Hatim Tyabji (Non-Executive Director)
Directors Fees (pa)	Nil	Nil	USD 100,000 (AUD 132,205 @ 0.756)
Base salary (pa)	\$280,000	\$225,000	Nil
Bonus (pa)	\$100,000 (Note 2)	\$50,000 (Note 3)	Nil
Value of options (Note 4) that immediately vest on acceptance	\$476,000	\$93,500	\$340,000
TOTAL	\$856,000	\$368,500	\$472,205
Value of options (Note 4) that vest annually over the period to 1 July 2008, assuming the Director continues to be employed by the Company	\$476,000	\$93,500 (Note 5)	

Notes:

1. These amounts include all superannuation obligations of the Company to the respective executives.
2. Payment of the bonus to Mr Course is dependent on the performance of the Company against the following five benchmarks (each benchmark has a 20% weighting) (i) actual EBITDA results against budget; (ii) operating cash flow; (iii) the achievement of agreed recurring revenue targets; (iv) expansion of the business in Australia; and (v) expansion of the business in Europe.
3. Payment of this bonus to Mr Skelton is based on the actual EBITDA results against budget. In the present circumstances, as Mr Skelton has resigned from his executive position in the Company, the bonus will not be paid.

4. The directors engaged Acuity Technology Management Pty Ltd ('Acuity') to undertake a valuation of the options that are the subject of the resolution set out in the Notice of Meeting. In its report dated 30 June 2005, Acuity valued each option at 17 cents. The valuation of the options was undertaken using a binomial tree option pricing model. A summary of the information on how the fair value of the options was derived is contained at Appendix B.
5. In the case of Mr Skelton, the value of the 550,000 unvested options of \$93,500 is based on the original entitlement of Mr Skelton to be issued 1,100,000 options. As indicated, as he has resigned from the Company and will leave the employment of the Company on 26 August 2005 the maximum number of options that Mr Skelton will receive (assuming shareholder approval) is 550,000, referred to in the above table as "immediately vest on acceptance".
6. All values are in Australian dollars unless indicated.

Advantages of the Proposed Issue of Options

As indicated, the offers of the options to the Directors were in each case made by the then directors of the Company as part of the remuneration arrangements offered to the respective Directors to induce them to join the Company. In order for the Company to comply with its contractual obligations to the Directors, the directors have convened the general meeting of the shareholders for the purpose of obtaining the requisite approval of the shareholders that must necessarily precede the issue of the options (on the terms set out in this Explanatory Statement) to the Directors.

The primary advantage to the Company of its agreement (subject to shareholder approval) to issue the options is that it has been able to secure the services of the relevant Directors in circumstances where they might not have otherwise agreed or, if they had agreed, the salary / fee cost to the Company of the total remuneration would have been significantly greater.

As outlined above, remuneration in the form of an option package serves to provide a significantly greater incentive to the recipients to increase shareholder value than the simple outlay of a cash sum. This is particularly the case with respect to the Company since its Directors receive a significantly lower cash remuneration in respect of their duties, obligations and potential liabilities / risks as directors of a new venture than is the case for directors of established companies of a similar size and structure.

A secondary advantage is that approval of the issue of the options will enable the Company to fully comply with its contractual obligations to its senior executives and one of its non-executive directors.

It should be noted that:

- (a) the options, if issued, will have an exercise price of \$0.60. This is 20% above the issue price of the two most recent share issues undertaken by the Company (being the \$0.50 issue price for the shares subscribed for under the Prospectus issued by the Company in August 2004 and the \$0.50 issue price of the shares issued by the Company to Touchcorp Limited on 9 March 2005);
- (b) 50% of the options granted to Philip Course vest over a three year period and are subject to forfeiture if Mr Course leaves the Company. (It is noted that the balance of the 1,100,000 options that were to be issued to Mr Skelton will be forfeited by him under this provision of the terms of issue when he leaves the employment of the Company on 26 August 2005.);
- (c) the options have an expiry date being the earlier of 180 days after resignation of employment and five years after the day of grant; and
- (d) the Company's shares are not presently publicly traded - the shares received on exercise of the options are likely to be of a materially lower value (due to their illiquidity) than if the shares were officially quoted on ASX.

A secondary benefit to the Company, as indicated above, is that it will enable the Company to preserve its cash resources and to direct those resources into growth of the business. Further, the real benefit to the Directors from the options can only occur if the Directors exercise the options, which exercise will only add further to the Company's cash resources and strengthen the level of commitment of the Directors to the Company. In that context, the Company does not believe there are any adverse financial or tax consequences arising to the Company from the proposed issue of the options.

Disadvantages of the Proposed Issue of Options

Despite your directors' belief that this proposal serves the interests of the Company and its shareholders, shareholders should be aware that the exercise of options granted under this proposal will dilute their shareholdings in the Company. The voting power and ability of shareholders to influence the affairs of the Company will also be affected adversely if the options are exercised.

There are presently 62,000,000 shares on issue in the Company. If all the options were exercised, there would be an increase of 8,150,000 shares (which shares would represent 11.6% of the expanded capital of the Company). The issue of these shares would increase the total number of shares held by members of the Board and, to that extent, it would further entrench their respective positions as officers of the Company. It would also dilute proportionately the shareholdings of all other shareholders. However, it should be noted that exercise of the options is only likely to take place if the market value of the Company's shares is above the \$0.60 cent exercise price of the options.

The directors do not consider the potential dilution of the existing shareholders to be a significant issue as the Company is currently controlled by its major shareholder (Guinness Peat Group plc (**GPG**)). That position will not alter following the issue, or exercise of, the options. It is noted GPG has advised the Company of its support for the issue of the options and that GPG's representative on the Board, Michael Jefferies, is not a recipient of options under the Plan.

Further, the granting of options under the Plan to the Directors does not guarantee that an improvement in the Company's performance will be realised, in whole or in part, for the benefit of shareholders. However, in that context, it should be recognised that the options will only have value in the hands of the Directors if there is an increase in the value of the Company's shares from \$0.50 (the last issue price of those shares) to \$0.60 (the exercise price of the options).

A further disadvantage of not approving the issue of the options is that the Company will not be able to fully comply with its contractual obligations under the contracts of employment with its senior executives and the contract for services entered into with Mr Tyabji. While the contracts contemplate the need for shareholder approval, in each case, failure to approve the resolution will require further negotiation between the Company and the relevant Director of a form of compensation to replace the benefit foregone by the relevant persons.

4. Legal requirements

The giving of a financial benefit to a related party of a public company is ordinarily prohibited by Chapter 2E of the *Corporations Act 2001 (Cth)*. The exceptions to the general prohibition are where the benefit is given with the approval of the shareholders or the benefit is given in one or more of the limited circumstances in which the giving of a financial benefit to a related party of a public company is permitted.

One exception to the general rule is where the benefit constitutes "reasonable remuneration" in respect of the duties and responsibilities of the related party in the management of the public company. In the opinion of the directors, the issue of the options does constitute "reasonable remuneration" in respect of each of the Directors and, as the provision of such benefits is expressly permitted by section 211(1) of the *Corporations Act 2001 (Cth)*, the directors do not consider the Company is strictly required to seek

shareholder approval in order to give the Directors the financial benefit that is inherent in the issue to them of the options.

Despite the foregoing, your directors believe it is appropriate that shareholders vote on the proposal prior to the issue of options to the relevant Directors. Accordingly, they have authorised the preparation of this notice of meeting in compliance with the requirements set out in Chapter 2E of the *Corporations Act 2001 (Cth)* for meetings at which resolutions are proposed for approval by the shareholders of the giving of a financial benefit to a related party (ie in this case, the Directors).

Set out above are details of the nature of the financial benefit to be given to the Directors and the advantages and disadvantages of approval by the shareholders of the resolution that will permit, if approved, the giving of the financial benefit.

In the case of David Skelton, shareholders should note that his resignation as a director does not alter his status as a related party of the Company for the purpose of Chapter 2E of the *Corporations Act 2001 (Cth)*. Under section 228(5) of the *Corporations Act 2001 (Cth)*, despite his resignation, David Skelton will remain a related party of the Company for six months following the date of that resignation.

In relation to the proposed issue of options, no Director wishes to make a recommendation to shareholders given his direct personal interest in the proposed issue of options. In the case of Mr Jefferies and Mr Taylor, while both believe the proposed issue of options is in the interests of the shareholders, neither wishes to make a formal recommendation to shareholders to that effect because of the nature of their relationships as fellow members of the Board. Mr Jefferies has, however, indicated that GPG (the major and controlling shareholder of the Company) is supportive of the proposed issue of the options and intends to vote its shares in favour of the resolution.

5. Voting

All shareholders on the register as at 9.00am on Tuesday 23 August 2005, except those associated with the Directors, are entitled to vote on the resolution. Please refer to the notes and voting exclusion statement in the Notice of Meeting for details of how to vote and the voting exclusions.

6. Recommendation

- 6.1 The directors make no recommendation in respect of the proposal as they have an interest in its outcome.
- 6.2 If shareholders cannot attend the meeting they are urged to complete the proxy form and return it (see proxy form for details) as soon as possible and, in any event at least 48 hours before the time for holding the meeting as set out in the Notice of Meeting.

Dated: 2 August 2005

APPENDIX A - TERMS AND CONDITIONS OF ISSUE OF OPTIONS TO DIRECTORS

Each option (**Option**) will entitle the holder (**Option Holder**) to subscribe for and be allotted one fully paid ordinary share (**Share**) in TAFMO Limited ACN 109 766 592 (**Company**) on the terms set out below:

1. Each Option that has fully vested is exercisable at any time on and after the date of vesting up to and including the earlier of (i) 180 days after resignation of employment; and (ii) five years from the date of grant (**Option Period**). All Options not exercised on or prior to the expiry of the Option Period will automatically lapse.
2. The Options may be exercised wholly or in part by giving notice in writing (**Notice of Exercise**) to the board of directors of the Company (**Board**) at any time during the Option Period.
3. The exercise price for each Option is \$0.60 (**Exercise Price**) and is payable immediately on exercise.
4. On receipt by the Company of the Notice of Exercise and payment of the relevant Exercise Price, the Company must, within 14 days, issue to the Option Holder the number of Shares in respect of which the Option is exercised and despatch the relevant share certificate or other appropriate acknowledgment as soon as reasonably practicable thereafter.
5. Shares issued on the exercise of any Options will rank equally in all respects with the then existing issued ordinary fully paid shares in the Company and will be subject to the provisions of the constitution.
6. An Option does not confer rights to participate in new issues of securities of the Company, unless the Option Holder has first exercised the Option.
7. Adjustments to the number of shares over which Options exist and/or the Exercise Price will be made to take account of changes to the capital structure of the Company by way of pro rata bonus and cash issues or an event of reorganisation (including consolidation, sub-division, reduction or return) of the issued capital of the Company, in the discretion of the Board. Adjustments will be made in a manner that is consistent with the Listing Rules of ASX governing the changes to option terms on reorganisation of a company's capital. (These rules will apply despite the fact that the Company is not listed on ASX at the present time.)
8. If during the currency and prior to the exercise of any Options a takeover bid (within the meaning of the Corporations Act 2001) is made to holders of shares and the bidder acquires in excess of 50% voting power in the Company, then notwithstanding any other terms and conditions applicable to the Options, all Options held by the Option Holder vest on the making of a takeover offer or takeover announcement.
9. If an offer for the shares is made to shareholders of the Company pursuant to a scheme of arrangement which has been approved in accordance with the Corporations Act 2001 and results in a person acquiring in excess of 50% voting power in the Company, Option Holders will be entitled to exercise Options held by them within the period notified by the Company.
10. The Options are not transferable except with the prior written consent of the Company. If the Company consents to the transfer of the Options, the Company may impose any conditions, including a condition that the transferee agree to be bound by the above terms and conditions, that it in its sole discretion determines to be appropriate.
11. Notices may be given by the Company to the Option Holder in the manner prescribed by the constitution of the Company for the giving of notices to the shareholders of the Company and the relevant provisions of the constitution will apply with all necessary modification to notices to be given to Option Holders.

The conditions set out above are in addition to the exercise conditions attaching to Options that are set out in the Explanatory Statement.

APPENDIX B

Summary extract from the Independent Valuation of TAFMO Employee Share Options undertaken by Acuity Technology Management Pty Ltd A.B.N 68 005 777 417 dated 30 June 2005 and signed by David Randerson, Managing Director.

A binomial tree options pricing model was employed to value the options relative to the Company share price valuations. This determined the following TAFMO share and option prices:

Valuation Date	Vesting Date	Exercise Date	Share Value ¹	Exercise Price	Option Value ²
1 July 05	1 July 05	1 July 10	\$0.55	\$0.60	\$0.17
1 July 05	1 July 08	1 July 10	\$0.55	\$0.60	\$0.17

As a preliminary to valuing the options we needed to value the Company shares as there has been limited trading history by which to gauge a share value. A discounted cash flow methodology was used, in which forecasts of future revenues and expenses were developed through consultation with the Company. Although we consider these forecasts to be based on reasonable assumptions there is no assurance that future cash flows will be realised. Hence, there is the possibility that the share price may be over or under estimated. If over estimated, the effect on the options value would be an overestimation, and vice versa. In other words, if the fair price of TAFMO shares is less than \$0.55 then one would expect that the option values are less than presented in our report.

Other important considerations in relation to the valuation of the options are:

1. The options have an Expiry Date of five years from the Grant Date;
2. The options have a vesting period of either nil or three years after the Grant Date;
3. Options are non-transferable, ie. the employee cannot assign or sell the shares to another party. Clearly, if exercised prior to listing on a stock exchange, the employee has limited ability to sell those shares.
4. The Company will list during the five year period from the date of the first granted options, ie. before July 2010 (although directors have not made any announcements or decision to that effect) or that it will be acquired, and that, as the options if exercised are currently not exchange-tradeable, a discount is applied to the calculated value of each option;
5. The risk-free rate is taken as the Government ten year bond rate of 5.47%;
6. The modelling makes no provision for the issuance of a dividend as the Company has stated in a Prospectus dated 3 August 2004 "it is unlikely that the Company will pay dividends in the short to medium term";

¹ Estimated share price at Date of Grant.

² In accordance with Accounting Standards the value of the unvested options does not take into account the vesting provisions which must be satisfied before an option vests.

7. In accordance with Accounting Standards the value of the unvested options does not take into account the vesting provisions which must be satisfied before an option vests;
8. The volatility of options has been assumed to be 35%. Listed companies that may be considered comparable to TAFMO on the basis of their technology platforms are presented in the following table. We consider that the Bill Express volatility is exaggerated by the large incremental changes that occur to the low share price, ie. cent movements on a twenty cent price, and that something closer to Euronet's volatility is the appropriate figure for the TAFMO options valuation.

Company	Technology	Exchange	Beta³	Annualised Volatility⁴
Bill Express	Transactional software	ASX	N/A	62.4%
Keycorp Limited	Security and transaction terminals	ASX	0.77	31.0%
ERG Limited	Security and transaction terminals	ASX	1.54	47.6%
Euronet Worldwide, Inc	Transactional software	NASDAQ	1.00	33.8%

9. In determining the appropriate volatility we have had regard to the annualised standard deviation of the returns on the underlying stock calculated using (i) continuously compounded returns; and (ii) the close of day share price of daily trades; and
10. We have further discounted the options values by 25% due to their non-transferability, lack of surety in relation to a stock exchange listing and other factors which could not be quantified due to a lack of history in TAFMO, such as employee aversion to risk.

The first two factors were managed by use of a Bermudian binomial tree and the third by an adjustment to the binomial tree value. The Bermudian option values are calculated using a 10 step binomial tree, representing six month increments to "smooth" computational steps, with either no vesting period or with vesting occurring at the end of the third year.

³ Determined January 2005 (source: Damodaran Online)

⁴ End of day price for 26 weeks from 25/12/04

Proxy form

**The Secretary
TAFMO Limited
Level 8, 342 Flinders Street, Melbourne, Victoria 3000**

I/We
(please print)

of
(please print)

being a member(s) of TAFMO Limited appoint:

Name of Proxy

Address of Proxy

or, in his/her absence:

Name of Proxy

Address of Proxy

or if I/we have not nominated a proxy or if the nominee is absent from the meeting, the Chairperson of the meeting as my/our proxy to vote on my/our behalf in accordance with the following instructions (or if no instructions are given, as the proxy sees fit) at the general meeting of TAFMO Limited to be held on Thursday 25 August 2005 and at any adjournment of that meeting.

If two proxies are being appointed, complete the following sentence: This proxy is authorised to exercise votes/ % of my/our total voting rights.

Directing your Proxy

To instruct your proxy how to vote, insert 'X' in the appropriate column against each item of business set out below. If you do not instruct your proxy how to vote on a resolution, your proxy may vote as he/she thinks fit or abstain from voting.

I/We instruct my/our proxy to vote as follows:

	For	Against	Abstain
Grant of options to certain directors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Chairperson's voting intentions

The Chairperson's voting intentions in relation to undirected proxies are to vote in favour of the resolution.

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 Chairperson (if he or she is your proxy) may exercise your proxy even if he or she has an interest in the outcome of the resolution and votes cast by him or her other than as proxy holder will be disregarded because of that interest.

This proxy must be signed by each appointing member (or the member's attorney). Proxies given by a company must be executed in accordance with section 127 of the Corporations Act 2001 (Cth) or signed by a duly authorised officer or attorney.

Dated:

.....

Common seal	Signature(s)	Name (print)

The proxy form and the power of attorney or other authority (if any) under which it is signed (or a certified copy) must be received by the company, at least 48 hours before the time for holding the meeting, at:

- (a) the Company's registered office, **Level 8, 342 Flinders Street, Melbourne, Victoria 3000**; or
- (b) + (61 3) 9018 6890, being a fax number at the Company's registered office.