

# **Entellect Solutions Limited**

**ACN 009 221 783**

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## **Notice of Extraordinary General Meeting to be held on 16 April 2010**

### **Explanatory Memorandum for the Notice of Extraordinary General Meeting**

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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT ABOUT THE ACTION YOU SHOULD TAKE PLEASE CONSULT YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.**

**NOTICE OF THE EXTRAORDINARY GENERAL MEETING TO BE HELD AT  
LEVEL 26, 52 MARTIN PLACE, SYDNEY NSW 2000, AT 10.00AM ON 16 APRIL 2010**

**TO BE VALID, FORMS OF PROXY FOR USE AT THE EXTRAORDINARY GENERAL MEETING  
MUST BE COMPLETED AND RETURNED TO THE COMPANY NO LATER THAN 10.00AM  
SYDNEY TIME ON 14 APRIL 2010**

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## Section A – Chairman’s Letter

15 March 2010

Dear Shareholder,

On behalf of the Board, I have the pleasure in inviting you to an Extraordinary General Meeting of the members of Entellect Solutions Limited (**Entellect** or **Company**) which will be held at Level 26, 52 Martin Place, Sydney NSW 2000, on 16 April 2010 at 10.00am.

The Notice of Meeting and Explanatory Memorandum is enclosed. Please read these documents carefully.

### Proposed Acquisitions

The Board has agreed (subject to various shareholder approvals being given at the Extraordinary General Meeting and other conditions being satisfied) to acquire:

- an international licence (excluding Australia and New Zealand) from a subsidiary of CSG Limited (**CSG**), CSG Education Pty Ltd (**CSG Education**), for the Learner Enterprise (**LE**) and Learner Analytics (**LA**) software products (**Software Acquisition**); and
- 100% of the issued share capital of 1343929 Ontario Limited and 1691826 Ontario Limited, the holding companies of The Administrative Assistants Limited (**AAL Acquisition**).

Completion of the Software Acquisition and the AAL Acquisition (together, the **Acquisitions**) are conditional on each other and will occur simultaneously.

### Consolidation of Share Capital

As part of the Acquisitions, Entellect is seeking shareholder approval to consolidate its share capital on a 1:58.159 basis (**Share Consolidation**). This would reduce the number of Entellect shares on issue from 1,744,778,615 shares to 30,000,000 shares (prior to the Placement and the Acquisitions).

### Consideration for the Acquisitions

The consideration for the Software Acquisition is AUD\$15 million which is payable by the issue of 3,489,557,230 Entellect shares (or 60,000,000 shares at \$0.25 on a post-consolidation basis).

The consideration for the AAL Acquisition is CAD\$20 million (which is payable in cash) plus further potential post-settlement payments over a maximum three year period that are based on the future sales and earnings of AAL. As at the date of the Notice of Meeting, the exchange rate is CAD\$1 = A\$1.074.

Further details of the consideration payable for the Acquisitions are set out in section 2.2 of the Explanatory Memorandum.

The LE and LA products which will be licensed to the Company under the Software Acquisition are designed for the primary and secondary education markets. Together, these two products enable educators to know, assess and manage each student as an individual. The LE and LA products are owned by CSG Education, a subsidiary of CSG. The licence to be granted to the Company will be an irrevocable, exclusive and non-transferable licence to promote, market, modify, resell and sub-license the LE and LA products anywhere in the world other than Australia and New Zealand.

AAL is a privately owned Canadian based software company engaged in the development, customisation and sale of enterprise student information and administrative systems. AAL has a client base of 11,600 institutions with approximately 6 million students across North America and the Middle East. AAL's primary software product is eSIS, a web based education data management solution which offers reporting capabilities and a payments system to teachers, parents and students.

The Acquisitions are conditional on a number of matters including the passing of Resolutions 2 to 4 in the attached Notice of Meeting.

The terms of the Acquisitions are summarised in section 2.2 of the Explanatory Memorandum.

### **Conclusion of the Independent Expert**

Shareholders are referred to the Independent Expert's Report prepared by RSM Bird Cameron Corporate Pty Ltd (**RSM Bird Cameron** or **Independent Expert**). RSM Bird Cameron was engaged to provide an opinion as to whether or not the Acquisitions are fair and reasonable to Entellect's shareholders. **RSM Bird Cameron has concluded that the Acquisitions, which are the subject of Resolution 3 in the enclosed Notice of Meeting, are fair and reasonable to Entellect's shareholders.**

The Independent Expert's Report is contained in Annexure B of this document.

### **Change of name to CingleVue International Limited**

The Company is also seeking shareholder approval to change the name of Entellect to CingleVue International Limited in order to more accurately reflect the business post the Acquisitions.

### **Placement**

The Board is also proposing to raise up to \$25,000,000 by issuing up to 7,269,910,896 Shares (or 125,000,000 Shares on a post-consolidation basis) under a placement (**Placement**).

The proceeds raised under the Placement will be used:

- to fund the initial cash consideration payable for the AAL Acquisition (i.e. the CAD\$20 million); and
- for general working capital purposes.

### **Recommendation of the Directors**

None of the Directors have any interest in the resolutions other than in their capacity as officers and shareholders of Entellect.

Shareholders are encouraged to read the enclosed Explanatory Memorandum in its entirety, and to attend the Extraordinary General Meeting and vote on the resolutions. A proxy form is enclosed at Annexure A to enable any shareholder who is unable to attend the Extraordinary General Meeting to vote at the meeting.

Each Director of the Company intends that they and their respective associates will vote in favour of the resolutions in the enclosed Notice of Meeting.

**The Directors unanimously recommend that shareholders vote in favour of the resolutions.**

Should you wish to discuss the Notice of Meeting you can contact Jeffrey Bennett on +61 2 8249 0000.

Once again, on behalf of the Board I would like to thank you for your continued support.

Yours faithfully,

**Jeffrey Bennett**  
**Chairman**

## Section B – Glossary

### 1. Definitions

The following definitions are used in the Notice of Meeting and the Explanatory Memorandum:

**AAL** means The Administrative Assistants Limited.

**AAL Acquisition** means the acquisition by Entellect of 100% of the issued share capital of 1343929 Ontario Limited and 1691826 Ontario Limited, the holding companies of AAL.

**AAL Agreement** means the share sale and purchase agreement between Entellect and Brian Currie dated 27 February 2010 in respect of the AAL Acquisition.

**Acquisitions** means the Software Acquisition and the AAL Acquisition.

**Associate** has the meaning given to that term in the Corporations Act.

**ASX** means ASX Limited ACN 008 624 691.

**ASX Listing Rules** means the official listing rules issued and enforced by the ASX as amended from time to time.

**Board** or **Board of Directors** means the board of Directors of Entellect.

**Business Day** means a day which is not a Saturday, Sunday or public holiday in Sydney.

**Company** or **Entellect** means Entellect Solutions Limited ACN 009 221 783.

**Completion** means completion of the Acquisitions which is expected to occur within 5 Business Days following the Company meeting the requirements in Chapters 1 and 2 of the ASX Listing Rules.

**Consideration Shares** means a maximum of 3,489,557,230 Shares (or 60,000,000 Shares on a post-consolidation basis) which are to be issued to CSG and Swotsmart as consideration for the Software Acquisition.

**Consolidation Date** means 4 May 2010 which is the date that the Company's share capital will be consolidated on a 1 for 58.159 basis pursuant to Resolution 1.

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

**Convertible Notes** means 2,000,000 convertible notes issued by the Company at \$0.20 each to raise \$400,000 for working capital purposes which are mandatorily convertible on completion of the AAL Acquisition and re-listing of the Company's securities for quotation.

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

**CSG** means CSG Limited ACN 123 989 631.

**CSG Education** means CSG Education Pty Ltd ACN 128 335 768.

**CSG Nominee Director** means Mr Philip Chambers.

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

**Eligible Shareholder** means a Shareholder who is recorded on the Company's Share register at 7.00pm Sydney time on 14 April 2010.

**Excluded Share Issue** means the issue of 1,250,000 Shares at \$0.20 per Share on re-listing of the Company's securities for quotation which will be an excluded offer and will not require shareholder approval under Listing Rule 7.1 or a disclosure document.

**ESN Nominee Director** means Mr Glenn Fielding.

**Explanatory Memorandum** means the explanatory memorandum set out in Section D of this document.

**Extraordinary General Meeting** means the extraordinary general meeting of the Company to be held on 16 April 2010 pursuant to the Notice of Meeting.

**Holding Companies** means each of 1343929 Ontario Limited and 1691826 Ontario Limited.

**Implementation Deed** means the transaction implementation deed between the Company, CSG Education and Swotsmart dated 3 March 2010 in respect of the Software Acquisition.

**Independent Expert** or **RSM Bird Cameron** means RSM Bird Cameron Corporate Pty Ltd ACN 050 508 024.

**Independent Expert's Report** means the report prepared by the Independent Expert for inclusion in this Notice of Meeting at Annexure B.

**Investors** means institutional and sophisticated investors that because of one or more of sections 708(8), 708(10), 708(11) or 708(12) of the Corporations Act will be issued with up to 125,000,000 Shares under the Placement without a disclosure document under Part 6D.2 of the Corporations Act.

**LA** means the Learner Analytics software product.

**LE** means the Learner Enterprise software product.

**Licence Agreement** means the licence agreement to be entered into by the Company and CSG Education in respect of the Software Acquisition.

**Mandatory Conversion** means mandatory conversion of the Convertible Notes into 2,000,000 Shares (on a post-consolidation basis) on completion of the AAL Acquisition and re-listing of the Company's securities for quotation.

**MXL** means MXL Limited.

**Notice of Meeting** or **Notice** means the notice of Extraordinary General Meeting set out in Section C of this document.

**Official List** means the official list of entities that ASX has admitted and not removed.

**Placement** means the issue of up to 7,269,910,896 Shares (or 125,000,000 Shares on a post-consolidation basis) under a placement to Investors.

**Resolution** means a resolution passed by the requisite majority of members of the Company on a show of hands or by the requisite majority of votes given on a poll.

**Resolution 1** means the ordinary resolution set out in the Notice of Meeting to approve the Share Consolidation.

**Resolution 2** means the ordinary resolution set out in the Notice of Meeting to approve the issue of 7,269,910,896 Shares (or 125,000,000 shares on a post-consolidation basis) to the Investors under the Placement.

**Resolution 3** means the ordinary resolution set out in the Notice of Meeting to approve the Acquisitions.

**Resolution 4** means the ordinary resolution set out in the Notice of Meeting to approve the issue of the Consideration Shares to CSG and Swotsmart.

**Resolution 5** means the ordinary resolution set out in the Notice of Meeting to approve the election of Greg Tolefe to the Board.

**Resolution 6** means the ordinary resolution set out in the Notice of Meeting to approve the election of Glenn Fielding to the Board.

**Resolution 7** means the ordinary resolution set out in the Notice of Meeting to approve the election of Philip Chambers to the Board.

**Resolution 8** means the special resolution set out in the Notice of Meeting to approve the change of the Company's name to CingleVue International Limited.

**Seller** means Brian Currie.

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

**Shareholder** means a holder of a Share.

**Share Consolidation** means the consolidation of the Company's share capital on a 1 for 58.159 basis pursuant to Resolution 1.

**Software Acquisition** means the acquisition by Entellect of an international licence (excluding Australia and New Zealand) from a subsidiary of CSG, CSG Education, for the LE and LA software products.

**Swotsmart** means Swotsmart Pty Limited ACN 126 727 508.

## 2. Interpretation

For the purposes of interpreting the Explanatory Memorandum and the Notice of Meeting:

- (a) the singular includes the plural and vice versa;
- (b) words importing any gender include the other genders;
- (c) reference to any statute, ordinance, regulation, rule or other law includes all regulations and other instruments and all considerations, amendments, re-enactments or replacements for the time being in force;
- (d) all headings, bold typing and italics (if any) have been inserted for convenience of reference only and do not define, limit or affect the meaning or interpretation of the Chairman's Letter, the Explanatory Memorandum and the Notice of Meeting;
- (e) reference to persons includes bodies corporate and government authorities and in each and every case, includes a reference to the person's executors, administrators, successors and substitutes (including without limitation persons taking by novation and assignment); and
- (f) reference to **\$, A\$, Australian Dollars** or **dollars** is a reference to the lawful tender for the time being and from time to time of the Commonwealth of Australia.

## Section C – Notice of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Shareholders of Entellect Solutions Limited ACN 009 221 783 will be held at Level 26, 52 Martin Place, Sydney NSW 2000, on 16 April 2010 at 10.00am.

Defined terms used in this Notice of Meeting have the meanings given to them in the Glossary accompanying this Notice of Meeting.

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### BUSINESS

#### 1. Resolution 1: Share Consolidation

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an ordinary resolution:

"That in accordance with section 254H(1) of the Corporations Act and with effect from the Consolidation Date, the issued Share capital of the Company be consolidated on the basis that every 58.159 existing fully paid Shares in the capital of the Company be consolidated into one fully paid ordinary Share as more fully described in section 3.1 of the Explanatory Memorandum (Section D)."

#### 2. Resolution 2: Approval of issue of Shares under the Placement

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an ordinary resolution:

"That subject to the passing of Resolutions 1, 3 and 4 and for the purposes of Listing Rule 7.1 and all other purposes, the Company be permitted to issue up to 7,269,910,896 Shares (or 125,000,000 Shares on a post-consolidation basis) to the Investors under the Placement as more fully described in section 3.2 of the Explanatory Memorandum (Section D)."

#### 3. Resolution 3: Approval of the Acquisitions and the change to the nature and scale of Entellect's activities

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an ordinary resolution:

"That subject to the passing of Resolutions 1, 2 and 4, and for the purposes of Listing Rule 11.1.2 and all other purposes, approval is given for the proposed Acquisitions and the change to the nature and scale of Entellect's activities that will result from the Acquisitions as described more fully in sections 2.2 and 3.3 of the Explanatory Memorandum (Section D)."

#### 4. Resolution 4: Approval of the issue of Consideration Shares

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an ordinary resolution:

"That subject to the passing of Resolutions 1, 2 and 3, and for the purposes of Listing Rule 7.1 and all other purposes, the Company be permitted to issue up to 3,489,557,230 Consideration Shares (or 60,000,000 Consideration Shares on a post-consolidation basis) as more fully described in sections 2.2 and 3.4 of the Explanatory Memorandum (Section D)."

**5. Resolution 5: Election of Greg Tolefe as a Director**

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an ordinary resolution:

“That subject to Completion of the Acquisitions, and in accordance with article 15.1(b)(i) of the Constitution, Greg Tolefe be appointed as a Director of the Company on Completion of the Acquisitions.”

**6. Resolution 6: Election of Glenn Fielding as a Director**

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an ordinary resolution:

“That subject to Completion of the Acquisitions, and in accordance with article 15.1(b)(i) of the Constitution, Glenn Fielding be appointed as a Director of the Company on Completion of the Acquisitions.”

**7. Resolution 7: Election of Philip Chambers as a Director**

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an ordinary resolution:

“That subject to Completion of the Acquisitions, and in accordance with article 15.1(b)(i) of the Constitution, Philip Chambers be appointed as a Director of the Company on Completion of the Acquisitions.”

**8. Resolution 8: Change of name of Entellect Solutions Limited to CingleVue International Limited**

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as a special resolution:

“That subject to Completion of the Acquisitions and for the purposes of section 157(1) of the Corporations Act and all other purposes, the name of the Company be changed to CingleVue International Limited.”

**9. Voting exclusion statements****Resolution 2**

In accordance with the notice requirements of Listing Rule 7.3.8 for approval under Rule 7.1 and Listing Rule 14.11.1, the Company will disregard any votes cast on Resolution 2 by:

- (a) an Investor;
- (b) any associate of an Investor; and
- (c) a person who might obtain a benefit, except a benefit solely in the capacity as a Shareholder of the Company, if Resolution 2 is passed, and an associate of any such person.

**Resolution 3**

In accordance with the notice requirements of Listing Rule 11.1.2 for approval under Listing Rule 11.1 and Listing Rule 14.11.1, the Company will disregard any votes cast on Resolution 3 by:

- (a) CSG, CSG Education, AAL or Swotsmart;
- (b) any associate of CSG, CSG Education, AAL or Swotsmart; and
- (c) a person who might obtain a benefit, except a benefit solely in the capacity as a Shareholder of the Company, if Resolution 3 is passed, and an associate of any such person.

#### **Resolution 4**

In accordance with the notice requirements of Listing Rule 7.3.8 for approval under Rule 7.1 and Listing Rule 14.11.1, the Company will disregard any votes cast on Resolution 4 by:

- (a) CSG, CSG Education or Swotsmart;
- (b) any associate of CSG, CSG Education or Swotsmart; and
- (c) a person who might obtain a benefit, except a benefit solely in the capacity as a Shareholder of the Company, if Resolution 4 is passed, and an associate of any such person.

However, the Company will not disregard a vote on Resolutions 2, 3 and 4 if it is cast by:

- (a) a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) 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.

#### **10. Determination of membership and voting entitlement**

For the purpose of determining a person's entitlement to vote at the Extraordinary General Meeting, a person will be recognised as a member of the Company and the holder of Shares if that person is registered as a holder of those Shares at 7.00pm Sydney time on 14 April 2010, being the second Business Day prior to the date of the Extraordinary General Meeting.

#### **11. Votes of members**

On a show of hands, each member present in person or by proxy or, in the case of a body corporate, by a corporate representative at the Extraordinary General Meeting shall have one vote.

On a poll, every member present in person or by attorney or by proxy or, in the case of a body corporate, by a representative shall have one vote for each Share held by him, her or it provided that all Shares are fully paid.

#### **12. Proxies**

Please note that:

- (a) a member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint no more than two proxies;
- (b) an instrument appointing a proxy must be in the form of the proxy form attached to this Notice of Meeting;

- (c) where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the member's voting rights. If a member appoints two proxies, and the appointment does not specify the proportion of the member's voting rights, each proxy may exercise one-half of the voting rights;
- (a) a proxy need not be a member of the Company;
- (b) a proxy form may specify the manner in which the proxy is to vote in respect of a particular Resolution and, where the proxy form so provides, the proxy is not entitled to vote on the Resolution except as specified in the proxy form;
- (c) a proxy has the authority to vote on the member's behalf as he or she thinks fit, on any motion to adjourn the Extraordinary General Meeting, or any other procedural motion, unless the member gives a direction to the contrary;
- (d) a valid proxy form will be deemed to confer authority to demand or join in demanding a poll;
- (e) to be valid, a proxy form must be signed by the member or the member's attorney or, if the member is a corporation, executed in accordance with the corporation's constitution and the Corporations Act (and may be signed on behalf of the corporation by its attorney); and
- (f) to be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed (or an attested copy of it) must be received by no later than 10.00am on 14 April 2010:

by Registries Limited, the Company's Share Registry:

- in person: Registries Limited, Level 7, 207 Kent Street, Sydney  
NSW 2000
- by mail: Registries Limited, GPO Box 3993, Sydney NSW 2001  
Australia
- by facsimile: + 61 2 9290 9655

A form of proxy accompanies this Notice of Meeting and is set out in Annexure A (Proxy Form)

**By order of the Board**

David Michel  
Company Secretary

Dated: 15 March 2010

## **Section D - Explanatory Memorandum**

### **1. Introduction**

This Explanatory Memorandum has been prepared to assist Shareholders of the Company in understanding the business to be put to Shareholders for their consideration at the forthcoming Extraordinary General Meeting on 16 April 2010.

Section 2 of this Explanatory Memorandum sets out the background to Resolutions 2 to 8 which relate to the Acquisitions.

Section 3 of this Explanatory Memorandum sets out further information in relation to each of the Resolutions.

All capitalised terms are defined in the Glossary in Section B of this Explanatory Memorandum.

### **2. Background to Resolutions 2 to 8**

#### **2.1 Placement (Resolution 2)**

The Company is proposing to conduct a Placement to Investors of up to 125,000,000 Shares (on a post-consolidation basis) to raise up to \$25,000,000.

The funds raised under the Placement will be used to:

- (a) fund the expenses of the Placement;
- (b) fund the initial cash consideration for the AAL Acquisition; and
- (c) fund Entellect's working capital.

Resolution 2 seeks Shareholder approval to issue up to 7,269,910,896 Shares (or 125,000,000 Shares on a post-consolidation basis) to the Investors under the Placement. Further information is set out in section 3.2 of this Explanatory Memorandum.

#### **2.2 The Acquisitions (Resolutions 3 to 8)**

On 3 March 2010, the Directors announced that Entellect proposed to enter into a number of interrelated commercial transactions in the education IT sector, including the acquisition of an international licence from CSG Education (excluding Australia and New Zealand) for the LE and LA software products (i.e. the Software Acquisition), and the acquisition of 100% of the issued share capital of 1343929 Ontario Limited and 1691826 Ontario Limited, the holding companies of AAL (i.e. the AAL Acquisition).

The Acquisitions are interconditional and are proposed to be completed simultaneously.

The Company, CSG Education and Swotsmart entered into a transaction implementation deed on 3 March 2010 (**Implementation Deed**). The Implementation Deed regulates the relationship between these parties and sets out how the Software Acquisition is to be undertaken. In order for the Software Acquisition to be implemented, a number of conditions precedent need to be satisfied, including the Placement being finalised and all conditions precedent under the AAL Agreement being either satisfied or waived.

Consideration for the Software Acquisition will be paid to CSG and Swotsmart by the issue of 3,489,557,230 Consideration Shares (or 60,000,000 Consideration Shares on a post-

consolidation basis). Swotsmart will be issued with 21,000,000 of the Consideration Shares (on a post-consolidation basis) as it was involved in the development of aspects of the LE and LA software products, with the remaining 39,000,000 shares being issued to CSG (on a post-consolidation basis).

The Consideration Shares will not be issued until the Company has met the requirements in Chapters 1 and 2 of the ASX Listing Rules.

Subsequent to 31 December 2009, the Company issued 2,000,000 convertible notes at \$0.20 each to raise \$400,000 for working capital purposes (**Convertible Notes**). The Convertible Notes are mandatorily convertible into 2,000,000 Shares (on a post-consolidation basis) on completion of the AAL Acquisition and re-listing of the Company's securities for quotation (**Mandatory Conversion**). The Company is also proposing to raise an additional \$250,000 by issuing 1,250,000 Shares at \$0.20 per Share on re-listing of the Company's securities for quotation (**Excluded Share Issue**). The Excluded Share Issue will be an excluded offer and will not require shareholder approval under Listing Rule 7.1 or a disclosure document. Due to the timing of the Mandatory Conversion and Excluded Share Issue, where this Explanatory Memorandum quotes percentage shareholdings as a result of the Acquisitions, such percentages are quoted on a post-Mandatory Conversion and post-Excluded Share Issue basis.

The issue of the Consideration Shares to CSG and Swotsmart will result in CSG holding approximately 17.87% of Entellect's Share capital and Swotsmart holding approximately 9.62% of Entellect's Share capital (following the Placement, Mandatory Conversion and Excluded Share Issue).

The consideration for the AAL Acquisition will be the payment of CAD\$20 million in cash plus further potential post-settlement payments over a maximum three year period. These payments will be based on the future sales and earnings of AAL. See the Independent Expert's Report in Annexure B and section 2.2.3 of this Explanatory Memorandum for further information. As at the date of the Notice of Meeting, the exchange rate is CAD\$1 = A\$1.074.

### 2.2.1 Company's Business

Entellect is a publicly listed company which operates in the Australian software industry, focusing on student management and other software applications related to the education sector. Entellect provides web based student administration and curriculum management software to schools, colleges and higher education providers and corporate and vocational organisations.

The Company is engaged in the development, customisation, sale and support of the following products:

- (a) eMinerva – student management systems software;
- (b) vStars – curriculum assessment and reporting software; and
- (c) vPublisher – e-book online publishing software.

Entellect's key target market is regional, state or national education systems and authorities.

Entellect management estimate that the Company typically generates revenue from three primary sources:

- (a) upfront licence fees (30%);
- (b) royalty fees (34%); and

- (c) customisation and professional fees (36%).

Prior to changing its name in July 2008, Entellect traded as MXL Limited (**MXL**). MXL's primary product was eMinerva. MXL entered a trading halt on the ASX in March 2008 and was reinstated to official quotation on the ASX on 3 July 2008, trading as Entellect. During the trading halt period, the Company raised \$3 million of share capital and completed the following acquisitions:

- (a) the acquisition of intellectual property in relation to assessment and parent reporting solutions from ARC Research and Development Pty Ltd; and
- (b) the acquisition of Virtual Communications International Pty Ltd, a company engaged in delivering e-book solutions to international markets.

Since changing its name to Entellect, the Company has raised a further \$1.3 million of share capital to fund working capital.

The Company's major customers include:

- (a) Department of Education Tasmania – Entellect entered into a contract in 2006 for an initial 5 year term to supply eMinerva software to all Tasmanian government schools;
- (b) Brisbane Catholic Education – Entellect entered into a contract in November 2008 for 2 years to deliver eMinerva and vStars software across all levels of education to all Brisbane Catholic Education schools; and
- (c) BIGA training college.

### **2.2.2 CSG Education's Licensed Products**

The proposed Software Acquisition involves Entellect acquiring the international licence surrounding certain education-based software products held within the CSG group. The licence granted to Entellect will be an irrevocable, exclusive and non-transferable licence to promote, market, modify, resell and sub-license those software products in any jurisdiction worldwide other than Australia and New Zealand.

The education software products that will be licensed to Entellect are LE and LA. LE and LA are both enterprise class education solutions designed for the primary and secondary education markets. These two solutions provide educators with a comprehensive set of tools that enable them to assess and manage every student as an individual. They aim to transform the way students, parents, teachers and administrators think about learning and teaching.

LE and LA have current implementations around the world, including in:

- (a) Victoria, Australia - LE and LA are currently being implemented in Victoria, where they will be rolled out across approximately 550,000 students in 1,600 schools; and
- (b) New York City – CSG Education has recently commenced delivery of a pilot project with one of the New York City Department of Education's high profile laboratory schools – Quest2Learn – LE and LA form part of the core enabling technologies being delivered to assist with the creation of a new curriculum.

CSG Education is also conducting a number of pilots and has responded to a number of tenders in the United States in relation to the LE and LA software products. It is intended that these opportunities will also transfer to the Company.

## Learner Enterprise

LE is an online learning environment for students and teachers to collaborate and learn. It consists of learning spaces for students to utilise web 2.0 technologies (such as blogs) to reflect on their own learning and is a similar concept to MySpace. Students can invite friends into their space, share what they have learnt and engage collaboratively with other students and friends. LE also has similar spaces designed specifically for teachers to collaborate.



**Figure 1: LE enriches the learning experience through integration with web 2.0 technology**

## Learner Analytics

LA is a reporting analytics software application that provides graphical and data based diagnostics for children and their learning. LA provides details of a child's progress against the curriculum framework, or diagnostics of schools, schools within districts or across an entire system. LA can be integrated with the LE software application.



**Figure 2: LA provides a holistic, meaningful view of each student**

## Material Contracts and Arrangements

### (a) Implementation Deed

The Company, CSG Education and Swotsmart entered into a transaction implementation deed on 3 March 2010 (**Implementation Deed**). The Implementation Deed regulates the relationship between these parties and sets out how the Software Acquisition is to be undertaken.

In order for the transaction to be implemented, a number of conditions precedent need to be satisfied. In addition to the Company receiving all required shareholder and ASX approvals, the Implementation Deed is conditional upon the Placement being finalised, all conditions precedent under the AAL Agreement being either satisfied or waived and certain other standard conditions precedent being met.

If these conditions are not satisfied or waived by 31 May 2010, then the Implementation Deed may be terminated, in which case the relevant agreement between the parties will not proceed.

Following satisfaction (or waiver) of the conditions, and subject to CSG Education entering into the Licence Agreement, the Company is to issue the Consideration Shares to CSG (being the nominee of CSG Education) and Swotsmart on the terms outlined in this Explanatory Memorandum. The Consideration Shares issued to CSG and Swotsmart will be held in voluntary escrow for six months following Completion (or such longer period as the ASX may require).

Under the Implementation Deed, the Company will reimburse CSG Education for all transaction costs incurred by CSG Education in connection with the Software Acquisition, being \$332,002.55 plus further costs incurred after the date of the Implementation Deed including due diligence costs, corporate advisory fees, accounting fees, legal fees and fees of the Independent Expert.

The Implementation Deed outlines 'no shop' obligations, continuing until 31 May 2010, whereby the Company is restricted from soliciting or initiating any negotiations or discussions with third parties that may result in a change in control of the Company or an acquisition of a substantial part of the Company's business or share capital.

The Company must also procure that its Board (subject to fiduciary and other legal duties) recommends that the Software Acquisition is in the best interests of the Company and its members and that the Company's shareholders vote in favour of all resolutions pertaining to the transaction. This obligation however is subject to there being no publicly announced third party proposal which the Company's Board determines is more favourable to its shareholders than the proposed transaction with CSG Education and Swotsmart.

The Implementation Deed may be terminated by either the Company or CSG Education in the event that completion of the AAL Acquisition is unlikely to take place by 31 May 2010 and in certain other standard circumstances.

### **(b) Licence Agreement**

On completion of the Software Acquisition, the Company and CSG Education propose to enter into an authorised reseller agreement in relation to the LE and LA software (**Licence Agreement**). Under the Implementation Deed, the parties have agreed the terms of the proposed Licence Agreement.

Pursuant to the Licence Agreement, CSG Education will grant Entellect an irrevocable, exclusive and non-transferable licence to use, modify, further develop, integrate with other products and grant sub-licences to third parties to use the LE and LA software products everywhere, except in Australia and New Zealand. The Company can grant sub-licences on any commercial terms it wishes subject to the inclusion of certain terms regarding ownership of, and intellectual property in, the LE and LA software products.

Under the Licence Agreement, ownership of, and all rights in, the LE and LA software products will be retained by CSG Education. Modifications and developments of the LE and LA software products paid for by the Company are owned by the Company, which grants a royalty free, perpetual, irrevocable, non-exclusive licence to CSG Education to modify, develop, sub-license and otherwise exploit the modification or developments in Australia and New Zealand.

Under the terms of the Licence Agreement, CSG Education will be required to deliver a copy of the source code, object code and all relevant design and operation documentation in its possession to the Company with 60 days of the 'Commencement Date', defined as the date of completion pursuant to the Implementation Deed.

Under the Licence Agreement, CSG Education will be required to provide "call out" support for the LE and LA software products on request by the Company, until the earlier of the first anniversary of the Commencement Date, or the date on which the Company notifies it that it no longer requires support.

CSG Education will warrant that the grant of the licence for the LE and LA software products to the Company does not infringe the intellectual property rights of any third person in Australia. CSG Education's liability for breach of this warranty is limited to obtaining a licence to allow the Company to continue to use the LE and LA software products as permitted under the Licence Agreement, or modifying the LE and LA software products so that they do not infringe.

The Licence Agreement will require CSG Education to use its reasonable endeavours to correct any material non-conformance of the LE and LA software products with the specifications notified to it prior to the first anniversary of the Commencement Date.

CSG Education may assign any of its rights under the Licence Agreement without Entellect's consent.

The Licence Agreement will continue in perpetuity unless terminated according to its terms. CSG Education may terminate the Licence Agreement if the Company deliberately uses, copies or integrates the LE and LA software products (or allows anyone else to do so) in breach of the Licence Agreement, if CSG Education ceases to offer the LE and LA software products as part of its business, and in certain other standard circumstances. However, on expiration or termination of the Licence Agreement, the licence to use and grant sub-licences in respect of the LE and LA software products continues.

### **Financial Statements**

The Software Acquisition involves the entry into a new licence agreement in respect of which no historical accounts are applicable.

#### **2.2.3 AAL's Business**

AAL is a privately held, Canadian based software company headquartered in Ontario which provides specialised solutions in the education domain. The company was established in 1986 and is engaged in the development, customisation and sale of enterprise student management systems. AAL services 11,600 institutions with approximately 6 million students across North America and the Middle East.

AAL's key target market is regional, state or national education systems and authorities.

AAL generates its revenue from the sale of software licences, implementation fees and annual maintenance fees. During the year ended 30 September 2009, AAL's revenue was generated from these three sources as follows:

- (a) annual maintenance fees (54%);
- (b) implementation fees (30%); and
- (c) software licences (16%).

1343929 Ontario Limited and 1691826 Ontario Limited hold all of the issued shares in AAL. Brian Currie is the legal and beneficial owner of all of the issued share capital in both 1343929 Ontario Limited and 1691826 Ontario Limited.

#### **Primary software product**

AAL's primary software product is eSIS, an enterprise wide, web based, education data management solution supporting the primary and secondary education sectors. The eSIS product covers the needs of students, parents and teachers by offering reporting capabilities and a payments system. The product includes:

- (a) single student record and data integrity;
- (b) special education;
- (c) student biographical information;
- (d) home room / class administration;
- (e) general administration;
- (f) course scheduling and timetable building;

- (g) state department of education interface;
- (h) grade history;
- (i) student attendance; and
- (j) standard student testing.

As well as the core product, various modules can be added including Teacher Assistant, Executive Assistant, Parent Assistant, Special Education, Nurse Assistant and Fees Management.

### Financial statements

The tables below set out the financial performance and balance sheets of AAL for the financial years ended 30 September 2007, 2008 and 2009 in Canadian dollars. As at 30 September 2009, the Canadian to Australian dollar exchange rate was CAD\$1 = A\$1.055. As at the date of the Notice of Meeting, the exchange rate is CAD\$1 = A\$1.074.

	30 September 2007	30 September 2008	30 September 2009
The Administrative Assistants Ltd	Audited	Audited	Audited
Financial performance	CA\$'000	CA\$'000	CA\$'000
<b>Revenue</b>			
Software licenses	1,706	2,191	2,208
Implementation fees	7,089	3,812	3,985
Annual maintenance fees	5,894	5,649	7,167
	<b>14,689</b>	<b>11,652</b>	<b>13,360</b>
<b>Expenses</b>			
Fees and subscriptions	(231)	(202)	(271)
Premises costs	(797)	(706)	(718)
Telephone and communication	(184)	(134)	(131)
Travel	(459)	(366)	(588)
Wages, commissions and subcontractors	(10,092)	(7,372)	(8,166)
Office costs and other expenses	(1,010)	(786)	(700)
<b>EBITDA</b>	<b>1,916</b>	<b>2,086</b>	<b>2,786</b>
<i>EBITDA %</i>	<i>13.0%</i>	<i>17.9%</i>	<i>20.9%</i>
Depreciation and amortisation	(310)	(315)	(1,537)
<b>EBIT</b>	<b>1,606</b>	<b>1,771</b>	<b>1,249</b>
<i>EBIT %</i>	<i>10.9%</i>	<i>15.2%</i>	<i>9.3%</i>
Interest expense	(769)	(1,261)	(148)
<b>Net profit / (loss) before tax</b>	<b>837</b>	<b>510</b>	<b>1,101</b>
<i>Net profit before tax %</i>	<i>5.7%</i>	<i>4.4%</i>	<i>8.2%</i>

<b>Table 10.2 The Administrative Assistants Ltd Balance sheet</b>	<b>As at 30 September 2007 Audited CA\$'000</b>	<b>As at 30 September 2008 Audited CA\$'000</b>	<b>As at 30 September 2009 Audited CA\$'000</b>
<b>Current Assets</b>			
Cash assets	2,677	2,067	1,512
Trade and other receivables	4,116	3,415	4,080
Inventory - work in progress	71	-	-
	<u>6,864</u>	<u>5,482</u>	<u>5,592</u>
<b>Non-Current Assets</b>			
Property, plant and equipment	938	782	621
Intangible assets	3,192	4,377	4,911
Receivable from shareholder	300	295	295
Other	81	90	72
	<u>4,511</u>	<u>5,544</u>	<u>5,899</u>
<b>Total Assets</b>	<u><b>11,375</b></u>	<u><b>11,026</b></u>	<u><b>11,491</b></u>
<b>Current Liabilities</b>			
Trade and other payables	926	1,741	911
Borrowings	3,400	500	750
Deferred revenue	3,825	5,383	5,426
Payable to director	300	-	-
Other payables	20	323	22
	<u>8,471</u>	<u>7,947</u>	<u>7,109</u>
<b>Non-Current Liabilities</b>			
Payable to shareholder	263	264	264
Payable to director	2,968	2,669	2,894
	<u>3,231</u>	<u>2,933</u>	<u>3,158</u>
<b>Total Liabilities</b>	<u><b>11,702</b></u>	<u><b>10,880</b></u>	<u><b>10,267</b></u>
<b>Net Assets</b>	<u><b>(327)</b></u>	<u><b>146</b></u>	<u><b>1,224</b></u>
<b>Equity</b>			
Issued capital	-	-	-
Accumulated profits / (losses)	(327)	146	1,224
<b>Total Equity</b>	<u><b>(327)</b></u>	<u><b>146</b></u>	<u><b>1,224</b></u>

AAL generated EBITDA results of CAD\$1.9 million, CAD\$2.1 million and CAD\$2.8 million for the years ended 30 September 2007, 2008 and 2009 respectively. AAL's EBITDA margin has increased from 13.0% for the year ended 30 September 2007 to 20.9% for the year ended 30 September 2009 primarily due to lower wages, commission and subcontractor costs, partly offset by lower revenues.

As at 30 September 2009, AAL had net assets of CAD\$1.2 million. Assets comprise primarily cash, receivables and intangible assets (development costs). Liabilities comprise primarily deferred revenue (pre-paid annual maintenance fees) and loans payable. The loans payable to a director and a shareholder are unsecured, non-interest bearing, with no specific terms of repayment.

### Independent Expert's Report

RSM Bird Cameron Corporate Pty Ltd, the Independent Expert, has prepared an Independent Expert's Report on the fairness and reasonableness of the AAL Acquisition (and the Software Acquisition) to the Company's Shareholders for inclusion in the Notice of Meeting at Annexure B.

## Material Contracts and Arrangements

On 27 February 2010, the Company entered into a share sale and purchase agreement with Brian Currie (**Seller**) to acquire 100% of the share capital in each of 1343929 Ontario Limited and 1691826 Ontario Limited (collectively, the **Holding Companies**) (**AAL Agreement**). The Holding Companies together own 100% of the share capital in AAL.

The Seller is currently the Chief Executive Officer of AAL and Andrea Currie is currently the Chief Operating Officer of AAL. The AAL Agreement is conditional upon the Seller and Andrea Currie entering into employment agreements with the Company prior to completion, which employment period will be for two years after the completion date.

The AAL Agreement is also conditional upon the completion of the Software Acquisition.

The AAL Agreement provides for the Company to pay the Seller CAD\$15,000,000 by way of cash at completion for the shares in the Holding Companies. The CAD\$15,000,000 payment will be subject to an adjustment post-completion on the net tangible assets of AAL. At completion, Entellect will also deposit CAD\$5,000,000 cash in escrow with a Canadian escrow agent, which sum will be transferred to the Seller on the 12 month anniversary of the completion date.

The AAL Agreement also provides for earn-out payments to be paid to the Seller based on future earnings of AAL during the "Earn-Out Period", the 24 month period following the execution of the AAL Agreement. The earn-out payments will be payable to the Seller within 7 days of receipt by AAL. In the event that the Seller does not earn an aggregate of CAD\$15,000,000 in earn-out payments during this 24 month period (either received or projected to be received by him), the Seller will be eligible for similar earn-outs for an additional 12 month period.

The earn-out payments are to be calculated by multiplying the "Earn Out Revenue", the revenue received or projected to be received during or after the Earn Out Period (or 12 month extension of the Earn Out Period) by AAL or the Company (or any licensee or assignee of AAL or the Company) from certain "Qualifying Contracts", by the relevant "Earn Out Multiple".

The Qualifying Contracts are any new engagements or service orders that are entered into by AAL or the Company (or any licensee or assignee of AAL or the Company) with respect to eSIS licence sales, eSIS implementation services or eSIS support and maintenance fees (but only in respect of fees received for the first 12 months of specific support and maintenance arrangements).

The Earn Out Multiples are the following multiples to be applied to all Earn-Out Revenue in order to calculate the Seller's earn-out:

- (a) Middle East Region:
  - (i) 25% of all Earn Out Revenue from eSIS licence sales;
  - (ii) 10% of all Earn Out Revenue from eSIS implementation services; and
  - (iii) 25% of Earn Out Revenue from support and maintenance fees (but only in respect of fees received for the first 12 months of specific support and maintenance arrangements); and
- (b) Other Regions:
  - (i) 25% of all Earn Out Revenue from eSIS licence sales;

- (ii) 10% of all Earn Out Revenue from eSIS implementation services; and
- (iii) 15% of Earn Out Revenue from support and maintenance fees (but only in respect of fees received for the first 12 months of specific support and maintenance arrangements).

Subscription based deals are assumed to have a four year contract term and payments will be based on 35% of half of the total contract amounts. When the length of the contract is less than four years, the parties have agreed to negotiate. The Independent Expert's Report prepared by RSM Bird Cameron has estimated the net present value of earn-out payments based on (and paid out of) future earnings at between \$1.1 million and \$1.2 million.

Under the AAL Agreement, the Seller has provided Entellect with a number of customary representations and warranties, including those relating to the accuracy of the information provided to Entellect, the share capital of the companies being acquired, tax related matters and the accounts of the Holding Companies and AAL.

#### **2.2.4 Appointment of Mr Greg Tolefe, the CSG Nominee Director and the ESN Nominee Director and change to the Company's name**

Subject to the approval of Shareholders, it is proposed to appoint Mr Greg Tolefe, the CSG Nominee Director and the ESN Nominee Director to the Board on completion of the Acquisitions.

Resolution 5 seeks approval for the appointment of Mr Greg Tolefe to the Board. Details of Mr Greg Tolefe are set out in section 3.5 of this Explanatory Memorandum.

Resolution 6 seeks approval for the appointment of the ESN Nominee Director to the Board. Details of the ESN Nominee Director are set out in section 3.6 of this Explanatory Memorandum.

Resolution 7 seeks approval for the appointment of the CSG Nominee Director to the Board. Details of the CSG Nominee Director are set out in section 3.7 of this Explanatory Memorandum. It is proposed that Mr Paul Lowry, Mr Conrad Crisafulli and Mr Jeffrey Bennett will resign from the Board once the CSG Nominee Directors and the ESN Nominee Directors are appointed.

The Board is also seeking Shareholder approval to change the Company's name to CingleVue International Limited on the basis that it will more accurately reflect the proposed future operations of the Company. Resolution 8 seeks this approval.

#### **2.2.5 Effects of the Acquisitions and the issue of the Consideration Shares**

In summary, the effect of the Acquisitions if completed and Resolutions 3, 4, 5, 6, 7 and 8 are passed is:

- (a) Entellect will acquire an international licence (excluding Australia and New Zealand) for the LE and LA software products;
- (b) AAL will become a wholly-owned subsidiary of the Company;
- (c) 3,489,557,230 Consideration Shares (or 60,000,000 Consideration Shares on a post-consolidation basis) will be issued to CSG and Swotsmart in consideration for the Software Acquisition so that, following the issue of the Consideration Shares, CSG will hold approximately 17.87% of Entellect's Share capital and Swotsmart will hold approximately 9.62% of Entellect's Share capital (following the Placement, Mandatory Conversion and Excluded Share Issue);

- (d) after the issue of the Consideration Shares and the issue of Shares under the Placement, the existing Shareholders will hold approximately 13.75% of Entellect (including the Mandatory Conversion and Excluded Share Issue);
- (e) Mr Greg Tolefe, the CSG Nominee Director and the ESN Nominee Director will be appointed to the Board of the Company; and
- (f) the Company will change its name to CingleVue International Limited.

## 2.2.6 Financial Statements

Set out below is a pro forma balance sheet of Entellect immediately after the Acquisitions. The pro forma balance sheet is based on Entellect's 31 December 2009 half yearly results and the audited balance sheet of AAL as at 30 September 2009 converted to Australian dollars at the prevailing exchange rate on 12 March 2010, CAD\$1 = A\$1.064.

Table 11.1 Entellect Solutions Limited Pro forma Balance sheet	ESN As at 31 December 2009 A\$'000	LE / LA A\$'000	Capital raising and transaction costs A\$'000	Purchase AAL A\$'000	AAL As at 30 September 2009 A\$'000	Consolidation Eliminations A\$'000	Pro forma A\$'000
<b>Current Assets</b>							
Cash assets	713	-	22,940	(21,280)	1,609	-	3,982
Trade and other receivables	197	-	-	-	4,341	-	4,538
Proceeds of working capital loan	400	-	-	-	-	-	400
	1,310	-	22,940	(21,280)	5,950	-	8,920
<b>Non-Current Assets</b>							
Investment in subsidiaries	-	-	-	21,280	-	(21,280)	-
Property, plant and equipment	21	-	-	-	661	-	682
Intangible assets	1,806	15,000	-	-	5,225	19,978	42,009
Other	-	-	-	-	390	-	390
	1,827	15,000	-	21,280	6,277	(1,302)	43,082
<b>Total Assets</b>	<b>3,137</b>	<b>15,000</b>	<b>22,940</b>	<b>-</b>	<b>12,226</b>	<b>(1,302)</b>	<b>52,001</b>
<b>Current Liabilities</b>							
Trade and other payables	877	-	-	-	969	-	1,846
Borrowings	12	-	-	-	798	-	810
Provisions	150	-	-	-	-	-	150
Deferred revenue	103	-	-	-	5,773	-	5,876
Other	400	-	(400)	-	23	-	23
	1,542	-	(400)	-	7,564	-	8,706
<b>Non-Current Liabilities</b>							
Provisions	21	-	-	-	-	-	21
Other	-	-	-	-	3,360	-	3,360
	21	-	-	-	3,360	-	3,381
<b>Total Liabilities</b>	<b>1,563</b>	<b>-</b>	<b>(400)</b>	<b>-</b>	<b>10,924</b>	<b>-</b>	<b>12,087</b>
<b>Net Assets</b>	<b>1,574</b>	<b>15,000</b>	<b>23,340</b>	<b>-</b>	<b>1,302</b>	<b>(1,302)</b>	<b>39,914</b>
<b>Equity</b>							
Issued capital	61,860	15,000	24,650	-	-	-	101,510
Reserves	1,063	-	-	-	-	-	1,063
Accumulated profits / (losses)	(61,165)	-	(1,310)	-	1,302	(1,302)	(62,475)
Minority interest	(184)	-	-	-	-	-	(184)
<b>Total Equity</b>	<b>1,574</b>	<b>15,000</b>	<b>23,340</b>	<b>-</b>	<b>1,302</b>	<b>(1,302)</b>	<b>39,914</b>

Upon completion of the Acquisitions, Entellect will have net assets of approximately \$39.9 million.

Set out below is the capital structure of Entellect immediately after the Acquisitions and the Share Consolidation.

After completion of the Acquisitions and the Share Consolidation, existing Shareholders will own approximately 13.75% of Entellect (including the Mandatory Conversion and Excluded Share Issue).

<b>Table 11.2</b>		
<b>Entellect Solutions Limited</b>		<b>% of total shares</b>
<b>Shareholders</b>	<b>Number of shares</b>	<b>on issue</b>
<b>Before Proposed Transactions</b>		
Existing Shareholders	1,744,778,615	100.00%
<b>Total shares</b>	<b>1,744,778,615</b>	<b>100.0%</b>
<b>After Proposed Share Consolidation</b>		
Existing Shareholders	30,000,000	100.00%
<b>Total shares</b>	<b>30,000,000</b>	<b>100.00%</b>
<b>After Proposed Transaction 1</b>		
Existing Shareholders	30,000,000	33.33%
CSG Limited	39,000,000	43.33%
Swotsmart Pty Limited	21,000,000	23.33%
<b>Total shares</b>	<b>90,000,000</b>	<b>100.0%</b>
<b>After Proposed Transaction 2 (including share placement)</b>		
Existing Shareholders	30,000,000	13.75%
CSG Limited	39,000,000	17.87%
Swotsmart Pty Limited	21,000,000	9.62%
Investors - placement	125,000,000	57.27%
Other	3,250,000	1.49%
	<b>218,250,000</b>	<b>100.00%</b>

### 2.2.7 Interests of Mr. Greg Tolefe

Mr. Greg Tolefe owns 100% of Swotsmart's shares. As Swotsmart assisted with the development of aspects of the LE and LA software products, it is proposed that Swotsmart will be issued with 21,000,000 Consideration Shares (on a post-consolidation basis) in consideration for the Software Acquisition.

It is proposed that Mr. Greg Tolefe will be appointed as a director and Chief Executive Officer of Entellect on Completion of the Acquisitions.

Further details regarding Mr Greg Tolefe are set out in section 3.5 of this Explanatory Memorandum.

### 2.2.8 Recommendations of the Board

No Entellect Director has a material personal interest in the outcome of Resolutions 3 to 8 (i.e. the Resolutions relating to the Acquisitions and the appointment of the CSG Nominee Director and the ESN Nominee Director) by virtue of his or any associate's interest in CSG, CSG Education, AAL or Swotsmart, save for any interest they may have solely in their capacity as an officer of Entellect or a Shareholder which they hold in common with all Entellect Shareholders.

Each of the Directors considers himself justified in making a recommendation in relation to Resolutions 3 to 8 and each intends to vote any Shares he holds in favour of Resolutions 3 to 8.

Based on the information available, including that contained in this Explanatory Memorandum and the risks outlined in section 2.2.12, all of the Directors consider the Acquisitions to be in the best interests of the Company.

In making their recommendations, the Directors have considered:

- (a) the rationale for the benefits of the Acquisitions as set out in section 2.2.10 of this Explanatory Memorandum;
- (b) the risks associated with the Acquisitions as set out in section 2.2.12;
- (c) the advantages and disadvantages of the Acquisitions as set out in section 2.2.11; and
- (d) the reasoning and conclusions of RSM Bird Cameron in the Independent Expert's Report set out in Annexure B.

### **2.2.9 Conclusion of the Independent Expert**

RSM Bird Cameron, the Independent Expert, has concluded that the Acquisitions are fair and reasonable to Entellect's Shareholders. A copy of the Independent Expert's Report is set out in Annexure B.

### **2.2.10 Reasons why the Board considers the Acquisitions to be in the best interests of the Company and Shareholders**

The Directors unanimously consider that the Acquisitions are in the best interests of the Company and Shareholders.

The principal reasons why the Directors recommend that Shareholders vote in favour of Resolutions 3 to 8 are that they believe that:

- (a) the Acquisitions will return more value to Shareholders than the current business. The Directors have reached this difficult decision in light of the Company's existing product set, scale and lack of capital to fund growth;
- (b) by making the Acquisitions, existing Shareholders will hold Shares in a significantly larger entity with a strengthened balance sheet and the potential for major growth; and
- (c) the Acquisitions will position the Company as a significant participant in the global education software sector. The Directors believe this will provide more return to Shareholders than if the Company did not complete the Acquisitions.

### **2.2.11 Advantages and Disadvantages associated with the Acquisitions and issue of the Consideration Shares**

#### **Advantages**

The main advantages associated with the Acquisitions and the issue of the Consideration Shares are:

- (a) **(the Acquisitions are fair)** the Independent Expert's Report concludes that the Acquisitions are fair to Shareholders as the forecasted value of the Shares is greater after the Acquisitions than before the Acquisitions;
- (b) **(expanding product set)** the Acquisitions will significantly expand the Company's product set. The LE and LA applications provide a more diverse, complete and

complimentary product set to expand into the international education market. AAL's eSIS product is also a complimentary product to Entellect's existing product set and the LE and LA applications. CSG Education currently partners with AAL to implement the eSIS product, together with the LE and LA applications as part of its product offering;

- (c) **(access to international markets)** the Acquisitions provide the Company with the opportunity to expand into international education markets. Given the Company's existing product set, scale and lack of capital to fund growth and in the absence of significant additional capital, it is unlikely that Entellect will be able to expand into international markets to the extent that may be possible following the Software Acquisition. Following the Acquisitions, Shareholders will hold Shares in a significantly larger entity that has prospects for expansion into international growth. AAL has an existing presence in North America and the Middle East which is likely to assist Entellect to market the LE and LA products in combination with AAL's existing product set;
- (d) **(increase in net assets)** the Acquisitions are based entirely on the issue of equity and as a result, the Company's consolidated net asset position will increase after the Acquisitions and the Company may have greater access to capital; and
- (e) **(liquidity)** Shareholders currently own Shares that are traded in a relatively illiquid market. As the sale of a large parcel of Shares is likely to materially impact the price of the Shares, the ability of Shareholders to exit their investment at the prevailing market price is currently limited.

### Disadvantages

The main disadvantages associated with the Acquisitions and the issue of the Consideration Shares are:

- (a) **(dilutionary impact)** the Acquisitions require the Company to issue 188,250,000 million Shares (after the Share Consolidation and including the Mandatory Conversion and Excluded Share Issue) which will dilute the interest of existing Shareholders from 100% of the Company to approximately 13.75%;
- (b) **(business risk)** the risks that currently relate to the Company's and AAL's business will continue after the AAL Acquisition; and
- (c) **(fluctuation risk)** the risk that the growth and revenue prospects of the Company after the Acquisitions will fluctuate.

### 2.2.12 Investment Risks associated with the Acquisitions

General risks associated with the Acquisitions and the proposed issue of Consideration Shares are:

- (a) **(economic conditions)** the performance of the Company and AAL following the Acquisitions may be significantly affected by changes in economic conditions. The profitability of the business may be affected by factors such as market conditions, interest rates, inflation and consumer demand;
- (b) **(geo-political factors)** The Company and AAL may be affected by the impact that geo-political factors have on the various world economies or the Australian economy or on financial markets and investments generally or specifically;
- (c) **(share market conditions)** Entellect, being a company listed on ASX, will continue to be subject to market forces that influence broad share market trends and the price

of securities of individual companies. Accordingly, the price of the Consideration Shares and the Shares issued under the Placement, when quoted on ASX, will be subject to varied and often unpredictable influences on the market for equities in general;

- (d) **(no guarantee of future earnings risk)** there is no guarantee of profitability, dividends, return of capital, or the price at which the Consideration Shares or the Shares issued under the Placement will trade on ASX after quotation;
- (e) **(uncontrollable factors)** the Company and AAL will be exposed to general risk factors that are associated with conducting a business including litigation resulting from the breach of agreements or in relation to employees (through personal injuries, industrial matters or otherwise), strikes, lockouts, loss of service of key management or operational personnel, non-insurable risks, delay in the resumption of activities after reinstatement following the occurrence of an insurable risk, acts of terrorism and acts of God and other matters or force majeure events that may interfere with the business or trade of the Company or AAL; and
- (f) **(product market factors)** the Company, AAL and the LE and LA software products may be affected by shifts in product markets and/or new products which replace existing product markets. Such shifts may replace existing products in an extremely short period of time making it impossible for the Company to replace these sales.

Specific risks associated with the Acquisitions and the issue of the Consideration Shares are:

- (a) **(Resolutions 2 - 4)** the Acquisitions are conditional on a number of matters, including Shareholders approving Resolutions 2 to 4;
- (b) **(financial risks)** the ability of AAL to implement its business strategy may require it or the Company to raise additional funds. No assurances can be given that such funding will be available or that it will be available on terms attractive to AAL or the Company;
- (c) **(pilot risks)** CSG Education is conducting a number of pilots and has responded to a number of tenders in the United States in relation to the LE and LA software products. No assurances can be given that these opportunities will give rise to formal contracts;
- (d) **(non-performance)** non-performance of significant contracts by other parties including customers;
- (e) **(substitute products)** the existence of substitute or improved products developed by competing companies;
- (f) **(competition)** the existence of any competition for the LE and LA software products or the products offered by AAL;
- (g) **(change in markets)** changes in the markets for the LE and LA software products and the products sold by AAL; and
- (h) **(litigation)** litigation arising from the Company's current business together with litigation arising from the LE and LA software products or the business conducted by AAL.

### **2.2.13 Risks for the Company if the Acquisitions are not approved or do not go ahead**

If the Acquisitions and the issue of the Consideration Shares are not approved by Shareholders or do not go ahead for any other reason, the Company intends to continue to develop its existing business. The Directors may also review other projects and acquisition opportunities that are considered to be in the best interests of the Company and Shareholders.

Further, if the Acquisitions do not go ahead then Entellect will probably undertake a capital raising to support the current Entellect business. In the current environment this would probably require a significant discount to the current share price which would be dilutionary to existing Shareholders. There is also no guarantee that such a capital raising would be successful in the current economic climate.

## **3. Further Information relating to each of the Resolutions**

### **3.1 Resolution 1 - Share Consolidation**

#### **3.1.1 Purpose of Resolution 1**

The purpose of Resolution 1 is to enable the Company to consolidate its Shares into a smaller number. Specifically, the resolution will reduce the number of Shares on issue by a factor of 58.159 from 1,744,778,615 Shares to approximately 30,000,000 Shares post the Share Consolidation. Following the Share Consolidation, the issue of Shares under the Placement and the issue of the Consideration Shares, the number of Shares on issue will be 218,250,000 (including the Mandatory Conversion and Excluded Share Issue).

Section 254H of the Corporations Act allows a company to convert all or any of its shares into a smaller number by way of a resolution of the members. There are currently 1,744,778,615 Shares on issue and approximately 2,900 Shareholders in the Company.

#### **3.1.2 Fractional entitlements**

Where a Shareholder's holding would result in a fraction of a Share after the Share Consolidation takes place, the Company proposes to issue that Shareholder, for no consideration, the additional fraction of the Share which is required to increase their holding to the next whole number.

#### **3.1.3 Effect on Shareholdings**

There are currently 1,744,778,615 Shares on issue.

The proposed Share Consolidation will have the effect of reducing the number of Shares on issue to approximately 30,000,000 (based on the number of Shares on issue before the Acquisitions and the Placement). The Share Consolidation will only have an effect on the number of Shares held by Shareholders. Shareholders' proportionate interest in the Company's Share capital will remain unchanged by the Share Consolidation.

#### **3.1.4 Effect on optionholders**

The Company currently has 381,681,392 options on issue. The effect of the proposed Share Consolidation if Shareholders approve the proposed Share Consolidation by passing Resolution 1 at the Extraordinary General Meeting, will be to reduce the number of Shares that the optionholder will receive when they exercise their options by the same ratio that Entellect's Shares will be reduced by when the Share Consolidation becomes effective.

### 3.1.5 Holding statements

From the date of the Share Consolidation all holding statements for Shares will cease to have any effect, except as evidence of an entitlement to a certain number of Shares on a post-consolidation basis. After the Share Consolidation becomes effective, the Company will arrange for new holding statements to be issued to Shareholders.

### 3.1.6 Timetable

Event	Date
Snapshot date for eligibility to vote at the Extraordinary General Meeting	14 April 2010
Approval of Share Consolidation at Extraordinary General Meeting and notification to ASX of results of the Extraordinary General Meeting	16 April 2010
Trading would normally commence in the consolidated securities on a deferred settlement basis*	20 April 2010
Last day for entity to register transfers on a pre-consolidation basis and record date for the Share Consolidation	27 April 2010
First day for entity to register Shares on a post-consolidation basis and to send Shareholder notice	28 April 2010
Despatch date. Deferred settlement trading would normally end. Last day for entity to register Shares on a post-consolidation basis and to send Shareholder notice	4 May 2010

\*If the Acquisitions are approved by Shareholders, the Company's securities will immediately be suspended from trading pending compliance with the admission requirements set out in Chapters 1 and 2 of the Listing Rules. Accordingly, deferred settlement trading will not occur as the Company will be suspended at this time.

### 3.2 Resolution 2 – Approval of issue of Shares under the Placement

The Company seeks Shareholder approval for the issue of up to 7,269,910,896 (or 125,000,000 Shares on a post-consolidation basis) to Investors under the Placement.

The funds raised by the issue of the Shares under the Placement will be used to:

- (a) fund the expenses of the Placement;
- (b) fund the initial cash consideration payable for the AAL Acquisition; and
- (c) fund Entellect's working capital.

Further details of the AAL Acquisition and AAL are set out in sections 2.2 and 2.2.3 of this Explanatory Memorandum.

Under Listing Rule 7.1 the Company must not (subject to certain exceptions) issue or agree to issue securities where such an issue would cause the number of securities issued by the Company in the past 12 months to exceed 15% of its fully paid ordinary securities on issue 12 months before the date of the issue, without the prior approval of Shareholders in general meeting.

As the issue and allotment of the Shares issued under the Placement will exceed 15% of the Company's existing issued Share capital, Shareholder approval is required for the issue and allotment of the Shares under the Placement under Listing Rule 7.1.

The information required to be given to Shareholders for the purposes of approval of the issue of the Shares under Listing Rule 7.1 is set out below.

<b>Number of securities allotted</b>	7,269,910,896 Shares (or 125,000,000 Shares on a post-consolidation basis).
<b>Issue Date:</b>	The Shares will be issued on 5 May 2010 (or in any event within 3 months of the date of the Extraordinary General Meeting).
<b>Issue Price:</b>	A minimum price of \$0.20 per Share.
<b>Terms of Securities:</b>	The Shares will be fully paid ordinary shares in the capital of the Company and will rank equally with the existing Shares on issue.
<b>Names of allottees:</b>	Allottees of the Shares will be the Investors.
<b>The use of the funds raised:</b>	The funds raised by the issue of the Shares will be used to: <ul style="list-style-type: none"> <li>• fund the expenses of the Placement;</li> <li>• fund the initial cash consideration for the AAL Acquisition; and</li> <li>• fund Entellect's working capital.</li> </ul>
<b>Allotment date:</b>	The date of allotment of the Shares is 5 May 2010 (or in any event within 3 months of the date of the Extraordinary General Meeting).
<b>Voting exclusion statement:</b>	Yes.

### **3.3 Resolution 3 – Approval of the Acquisitions and the change to the nature and scale of Entellect's activities**

#### **3.3.1 General**

Resolution 3 seeks Shareholder approval for the Acquisitions and the change that will occur to the nature and scale of Entellect's activities as a result of the Acquisitions.

As outlined in section 2.2 of the Explanatory Memorandum, on 3 March 2010 the Company announced that it proposed to:

- (a) acquire an international licence (excluding Australia and New Zealand) from CSG Education for the LE and LA software products; and
- (b) acquire 100% of the issued share capital of 1343929 Ontario Limited and 1691826 Ontario Limited, the holding companies of AAL,

subject to certain Shareholder approvals.

See section 2.2 of this Explanatory Memorandum for further details of the change to the nature and scale of Entellect's activities.

### **3.3.2 Listing Rule 11.1**

Listing Rule 11.1 provides that where an entity proposes to make a significant change, either directly or indirectly, to the nature or scale of its activities, it must provide full details to ASX as soon as practicable and comply with the following:

- (a) the entity must provide to ASX information regarding the change and its effect on the company's future potential earnings, and any information that ASX asks for;
- (b) if ASX requires, the entity must obtain the approval of holders of its shares and comply with any requirements of ASX in relation to the notice of meeting; and
- (c) if ASX requires, the company must meet the requirements of Chapters 1 and 2 of the Listing Rules as if the company were applying for admission to the official list of ASX.

ASX has indicated to the Company that the change in the nature and scale of Entellect's activities requires the Company to:

- (a) obtain Shareholder approval;
- (b) issue a prospectus setting out details of the proposed change to the nature and scale of Entellect's activities as a result of the Acquisitions; and
- (c) re-comply with the admission requirements set out in Chapters 1 and 2 of the ASX Listing Rules. If the proposed transactions are approved by the Shareholders, the Company's securities will immediately be suspended pending compliance with the relisting requirements set out in Chapters 1 and 2 of the ASX Listing Rules.

### **3.4 Resolution 4 – Approval of the issue of Consideration Shares**

The Company seeks Shareholder approval for the proposed issue of Consideration Shares to CSG and Swotsmart. The Consideration Shares are the consideration for the proposed Software Acquisition.

The Consideration Shares will not be issued until the Company has met the requirements in Chapters 1 and 2 of the ASX Listing Rules

The issue of the Consideration Shares to CSG and Swotsmart will result in CSG holding approximately 17.87% of Entellect's Share capital and Swotsmart holding approximately 9.62% of Entellect's Share capital (following the Placement, Mandatory Conversion and Excluded Share Issue).

Under Listing Rule 7.1 the Company must not (subject to certain exceptions) issue or agree to issue securities where such an issue would cause the number of securities issued by the Company in the past 12 months to exceed 15% of its fully paid ordinary securities on issue 12 months before the date of the issue, without the prior approval of Shareholders in general meeting.

As the issue and allotment of the Consideration Shares will exceed 15% of the Company's existing issued Share capital, Shareholder approval is required for the issue and allotment of the Consideration Shares under Listing Rule 7.1.

The information required to be given to Shareholders for the purposes of approval of the issue of the Consideration Shares under Listing Rule 7.1 is set out below.

<b>Number of securities allotted</b>	3,489,557,230 Consideration Shares (or 60,000,000 Consideration Shares on a post-consolidation basis) with: <ul style="list-style-type: none"> <li>• 2,268,212,200 of the Consideration Shares being issued to CSG; (or 39,000,000 Consideration Shares on a post-consolidation basis) and</li> <li>• 1,221,345,030 of the Consideration Shares being issued to Swotsmart (or 21,000,000 Consideration Shares on a post-consolidation basis).</li> </ul>
<b>Issue Date:</b>	The Consideration Shares will be issued within 5 Business Days following the Company meeting the requirements in Chapters 1 and 2 of the ASX Listing Rules (or in any event within 3 months of the date of the Extraordinary General Meeting).
<b>Issue Price:</b>	A deemed minimum price of \$0.25 per Consideration Share.
<b>Terms of Securities:</b>	The Consideration Shares will be fully paid ordinary shares in the capital of the Company and will rank equally with the existing Shares on issue.
<b>Names of allottees:</b>	Allottees of the Shares will be CSG and Swotsmart.
<b>The use of the funds raised:</b>	No funds will be raised from the issue of the Consideration Shares. The Consideration Shares are being issued in consideration for the Software Acquisition.
<b>Allotment date:</b>	The date of allotment of the Consideration Shares will be within 5 Business Days following the Company meeting the requirements in Chapters 1 and 2 of the ASX Listing Rules (or in any event within 3 months of the date of the Extraordinary General Meeting).
<b>Voting exclusion statement:</b>	Yes.

### **3.5 Resolution 5 – Election of Greg Tolefe as a Director**

Resolution 5 relates to the election of Greg Tolefe as a Director of the Company.

Greg Tolefe was formerly Chief Operating Officer at CingleVue Pty Ltd. Prior to this, Greg was Director of Service at Fujitsu and Head of Service Delivery at Fujitsu Services.

### **3.6 Resolution 6 – Election of Glenn Fielding as a Director**

Resolution 6 relates to the election of Glenn Fielding as a Director of the Company.

Glenn Fielding was Managing Director of DWS Limited and a past Director and founding member of SMS Management & Technology Ltd. Glenn has also been a Non-Executive Director of CPT Global Ltd.

### **3.7 Resolution 7 – Election of Philip Chambers as a Director**

Resolution 7 relates to the election of Philip Chambers as a Director of the Company.

Philip Chambers was previously the Non-Executive Chairman of CSG Limited. Prior to this, Philip was Managing Director of Fuji Xerox Australia from 1998 until his retirement from that office in June 2006. Prior to this, Philip worked for Rank Xerox Australia from 1985 holding management roles in Sydney and Auckland. Philip is a former Director of the Australian Information Industry Association, as well as a Governor of the American Chamber of Commerce.

### **3.8 Resolution 8 – Approval of change of company name from Entellect Solutions Limited to CingleVue International Limited**

Subject to Completion of the Acquisitions, Resolution 8 seeks Shareholder approval to change the Company's name to CingleVue International Limited. The Company is required to pass this resolution under Section 157 of the Corporations Act as a special resolution.

The Board proposes this change of name on the basis that it will more accurately reflect the proposed future operations of the Company.