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Networked Vision for over 10 Years
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Incorporating sonacom

Company Announcements

16 March 2007

The Australian Stock Exchange Ltd.
Via: e-Lodge Announcement

Dear Sir,

Independent Expert's Report on QuikTrak Networks Ltd offer

Zylotech Limited (**Zylotech**) will shortly be sending shareholders the Notice of Meeting to call the 2007 Annual General Meeting, to be held on 19 April 2007. As previously announced on 15 January 2007 and again 22 February 2007:

- QuikTrak Networks Limited (**QuikTrak**) has offered to purchase Zylotech's digital video surveillance business for $2 million worth of QuikTrak shares (**QuikTrak Offer**). The sale would exclude book debts, cash and Zylotech's subsidiaries Sonacom Pty Ltd and Sonacom Systems Pty Ltd and their business;
- the Directors intend to put the QuikTrak Offer to shareholders at the AGM; and
- the Directors, other than Andrew Unterweger, consider the QuikTrak Offer inadequate in its current form and will recommend that shareholders vote against the resolution relating to it.

Andrew Unterweger is a director and the chairman of QuikTrak and has abstained from voting on matters relating to the QuikTrak Offer.

William Buck Financial Services (NSW) Pty Limited was engaged to prepare an independent expert's report as to the fairness and reasonableness of the QuikTrak Offer. That report has now been finalised and a copy of it accompanies this notice.

In summary, William Buck's Independent Expert's Report finds that the QuikTrak Offer is not fair or reasonable to the non-excluded shareholders. It finds that:

- the value of Zylotech's business is in the range of $9.1 million to $10.96 million;
- the value of consideration offered ($2 million of shares in QuikTrak) is not a fair value for the business; and
- it would not be reasonable for Zylotech to accept the form of the transaction proposed by QuikTrak given concerns about the illiquidity of the QuikTrak shares and the availability of alternatives by which Zylotech could realise greater value than the price offered.

Shareholders are urged to read the following Independent Expert's Report in full.

For further information please contact Mr Mark Marshall on (02) 9427 2134.

Yours faithfully

Mark Marshall
Company Secretary

ZYLOTECH LIMITED
Independent Expert's Report
BUSINESS ASSET SALE OFFER BY QUIKTRAK NETWORKS LIMITED

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William Buck
Financial Services

15 March 2007

The Directors
Zylotech Limited
Unit 21, 12 Mars Road
LANE COVE NSW 2066

Dear Sirs,

Zylotech Limited
Independent Expert's Report
Business Purchase offer by QuikTrak Networks Limited

We refer to our appointment on 19 January 2007 to prepare an independent expert's report to accompany the Notice of Meeting and Explanatory Notice for the 2007 Zylotech Limited Annual General Meeting.

All capitalised terms in this report are defined in the Glossary in section 13 of this report.

1. Parties and Transaction

1.1. Zylotech Limited is a company listed on the ASX. Zylotech designs and manufactures a suite of digital video surveillance solutions for the large corporate and enterprise level security market. Zylotech also has two wholly owned subsidiaries, Sonacom Pty Limited and Sonacom Systems Pty Limited which design and manufacture remote monitoring buoys.

1.2. QuikTrak Networks Limited is a company listed on the ASX. QuikTrak owns and operates proprietary communications networks that monitor and track the location of assets such as motor vehicles and boats.

1.3. On 15 January 2007, announcements made to the ASX set out the following proposed Transaction between QuikTrak and Zylotech as follows:

1.3.1. QuikTrak has made an offer to purchase the Business Assets of Zylotech for AUD$2 million ("the Transaction").

1.3.2. A contract for sale of the Business has been drafted by QuikTrak and the offer has been made subject to the approval of the shareholders of Zylotech at their Annual General Meeting.

1.3.3. The purchase price is to be composed entirely of QuikTrak shares, issued at the volume weighted average price for the month preceding the date of purchase. There is no cash component to the purchase price.

1.3.4. Employee entitlements for employees of Zylotech transferring to QuikTrak would be assumed by QuikTrak on acquisition. The total liability for employee entitlements at 31 December 2006 for Zylotech was $114,433.

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1.3.5. The shareholdings of Zylotech would be unchanged by the Transaction.

1.3.6. After the transaction, Zylotech would retain its book debts, cash on hand and at bank and bank deposits at settlement and the shares in its subsidiaries Sonacom Pty Limited and Sonacom Systems Pty Ltd and would receive $2.0 million of shares in QuikTrak.

1.4. A resolution to accept or reject the Transaction is to be put to the shareholders of Zylotech at the company's annual general meeting on 19 April 2007. The wording of the resolution supplied to us is set out at item 3 of the Notice of Meeting as follows:

That, for the purposes of Listing Rule 11.2 and all other purposes, the general meeting approves of the disposal of the Company's main undertaking being its video surveillance business (Business) and the business assets owned by the Company and used in the Business, as described in the Explanatory Statement which accompanies this Notice of Meeting or otherwise upon terms and subject to conditions which the board determines.

1.5. In this report, those shareholders eligible to vote on the resolution are referred to as the "Non-excluded Shareholders".

1.6. In considering whether to accept or reject the proposed Transaction the shareholders of Zylotech should consider their own particular circumstances and, if in doubt, should consult an independent adviser.

2. Purpose and scope

2.1. An independent expert's report has been commissioned from William Buck Financial Services (NSW) Pty Limited ("William Buck") by the directors of Zylotech to be included with the Resolution for the consideration of shareholders at the AGM.

2.2. The purpose of this report is to express an opinion on whether the proposed Transaction is fair and reasonable to the Non-excluded Shareholders of Zylotech. In preparing this report we give permission for this report to be provided to the ASX.

Basis of assessment

2.3. In preparing this report, certain ASX Listing Rules and Guidance Notes have been considered.

2.4. Listing Rule 19.3 says that "Expressions that are not specifically defined in the listing rules, but are given a particular meaning in the Corporations Act have the same meaning in the listing rules". While the policy statements and practice notes issued by ASIC are directed towards the purchase of share capital and not the purchase of business assets, the relevant principles included in these pronouncements have been of assistance in preparing this report:

- ASIC Policy Statement 75 - Independent expert reports to shareholders
- ASIC Practice Note 42 - Independence of experts' reports
- ASIC Practice Note 43 - Valuation reports and profit forecasts

Fair and Reasonable

2.5. For the purposes of this report, An offer will be considered "fair" if the Value of the offer price or consideration is equal to or greater than the Value of the assets the subject of the offer.

2.6. Value for the purpose of this report is fair market value being the price that a knowledgeable, willing but not overanxious buyer would be willing to pay to a knowledgeable, willing but not overanxious seller both of which are dealing with each other at arms length in an open and unrestricted market.

2.7. In the event that an offer is "fair", then it will be considered "reasonable". The offer may also be reasonable if, despite not being fair but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

Methodology for Assessment

2.8. To form our opinion on whether the Transaction is fair and reasonable, we have considered the following criteria as they apply to the Non-excluded Shareholders:

- The value of the Business of Zylotech;
- The Value of an ordinary share in Zylotech before the proposed Transaction compared with the value if the Transaction proceeds.
- The value of QuikTrak shares at the time of the Transaction.
- The advantages and disadvantages for the Non-Excluded Shareholders of Zylotech in accepting the offer made by QuikTrak compared with Zylotech's commercial prospects if the Transaction does not proceed, including consideration of alternatives to the Transaction.

Valuation Methods

2.9. Practice Note 43 ASIC recommends that a valuation report should provide a narrow range of values because of the uncertainties associated with the valuation process. They consider it appropriate for the expert to apply a commonly accepted valuation methodology such as the following:

- the capitalisation of earnings method;
- the discounted cash flow method;
- the amount which an alternative acquirer might be willing to offer;
- the amount that would be distributed to shareholders on an orderly realisation of the company; and
- the most recent quoted price of the company.

2.10. Regardless of the methodology employed all valuation methods must consider a combination of factors that relate to the company being valued and the market or industry in which it operates.

2.11. All valuation methodologies require a subjective assessment of the company's future earnings and its prospects generally.

2.12. A summary of the methodologies referred to in this report has been attached in Appendix A.

3. Executive Summary

3.1. We have considered the proposed Transaction and conclude that the Transaction is not fair and reasonable to the Non-excluded shareholders of Zylotech for the following reasons:

3.1.1. the value offered for the business is not a fair value when compared to the independent valuation of the Business nor the market capitalisation of the Company represented by the underlying prospects of the Business; and

3.1.2. it would not be reasonable for Zylotech to accept the form of the Transaction due to the concerns regarding the illiquidity of the QuikTrak shares issued in respect of the purchase price and the availability of alternatives by which the company could realise greater value than the price offered by QuikTrak.

3.1.3. the disadvantages to Non-excluded shareholders of accepting the offer in the Transaction outweighs its advantages. Refer Section 10 for a listing of the advantages and disadvantages.

Comparison of Values – is the Offer fair?

3.2. We assess the Value of the Business of Zylotech to be between $9.1 million and $10.96 million which exceeds the offer price from QuikTrak of $2.0 million.

3.3. We assess the Value of a share in Zylotech before the Transaction to be between 9.4 cents and 11.3 cents a share which exceeds the Value of a share in Zylotech if the transaction occurs of between 2.1 cents per share or 2.9 cents per share.

3.4. Our conclusion is supported by the weighted average share price of Zylotech for the 30 days to 9 March 2007 of 4.5 cents per share and the closing price for Zylotech shares on 15 March 2007 of 9.5 cents per share both of which exceed the Value of a Zylotech share if the QuikTrak offer is accepted.

3.5. In our opinion the Value of the Business is higher than the value of the QuikTrak offer and on that basis is not fair.

Reasonable Offer

3.6. In addition to our analysis of the purchase price offered for the Business, we conclude that the form of the consideration offered by QTK does not represent a reasonable proposition for the shareholders of Zylotech.

3.7. In particular, we have found that:

3.7.1. The consideration is comprised solely of shares in QuikTrak. According to the report prepared by Vantage Analysis dated October 2006 the shares in QuikTrak are closely held with the major shareholder owning 30% of the issued shares and the top 10 shareholders having 54% between them;

3.7.2. There is no consistent history of profitable operations. For the year ended 30 June 2006 QuikTrak earned a net profit of $273,925 before an impairment write-down of $14,230,873. The financial results for the six months to 31 December 2006 show a loss of $977,477 for the period.

3.7.3. The net tangible asset backing per share according to the half year report to 31 December 2006 is 0.15 cents per share which compares with a share price of 17 cents per share.;

3.8. On the basis that the shares in QuikTrak are closely held it is our opinion that the shares in QuikTrak are illiquid and the current share price may not be a reasonable indication of the value of QuikTrak shares.

3.9. As the shares in QuikTrak will form the majority of the assets of Zylotech, if the Transaction proceeds, shares in Zylotech will be illiquid for the reasons listed above for QuikTrak and because of the minority standing that Zylotech will have in QuikTrak.

3.10. The form of the consideration will impact on Zylotech's ability to fund its overheads and the general operations of the business of its remaining subsidiary, Sonacom Pty Limited because the shares in QuikTrak are unlikely to pay dividends in the short term.

Consideration of Alternatives to Transaction

3.11. We considered the reasonableness of the Transaction in comparison with other opportunities for the shareholders of Zylotech.

3.12. We have considered the capital funding constraints on the growth of the Business and have evaluated three financing models which the Company has put forward as alternatives to the offer made by QuikTrak, being:

3.12.1. A Placement proposal presently before the Board;
3.12.2. A future issue of shares
3.12.3. Overseas production finance from a foreign Government
3.12.4. Debtor Factoring from an Australian financial institution

3.13. In our opinion, the financing options identified by the Zylotech represent reasonable alternatives to accepting the offer from QuikTrak to fund the ongoing operations of Zylotech.

4. Zylotech

4.1. In the following sections we:

- Section 4 – Review the history, operations and prospects of Zylotech;
- Section 5 – Consider an appropriate valuation methodology for the Business of Zylotech;
- Section 6 – Determine a value for the Business of Zylotech;
- Section 7 – Determine the value of an ordinary share in Zylotech and compare it to the value of a share in Zylotech given by the offer price in the Transaction and also the current market price for Zylotech shares.

Background

4.2. Zylotech is a listed company based in Lane Cove, Sydney, New South Wales. The company operates in the Technology Hardware and Equipment industry sector of.

4.3. The company was incorporated on 1 May 1969 and changed its name to Zylotech on 23 July 1996 – prior to this it was a Western Australian mining company known originally as Magnet Metals Limited and later as Magnet Group Limited.

4.4. The Business of Zylotech was originally the development and sale of digital video technology for long distance conference transmissions. The Company's technology was based on improved encoding and encryption of video information. Working products were developed and sold to the public, however, demand was not sufficiently high to grow the business in line with the Company's expectations and the Business changed to the digital security solution industry in order to capitalise on its existing technical expertise within the digital video field.

4.5. Over the past 4 to 5 years, the Business has moved to provide security tools and solutions based on the evolution of its pre-existing digital video capture, transmittal and networking technologies.

4.6. Zylotech has two subsidiary businesses, Sonacom Pty Limited and Sonacom Systems Pty Limited, that develop and market communication and monitoring buoys for ocean deployment. These products and the technologies associated with them are not related to the Business or associated with the security market of Zylotech. Although Sonacom does have employees on its books, these individuals are all employed full-time by Zylotech to work in the security business.

4.7. The research and development cost of these subsidiaries has been funded by Zylotech. Whilst these businesses and any assets and liabilities that they contain are not included in the Transaction, the directors of Zylotech will need to consider their obligations to fund these subsidiaries or discontinue their operations should they sell or transfer the remainder of the businesses owned by Zylotech.

4.8. The technology developed by Sonacom has not yet been sold in any significant numbers and the subsidiary has largely been a cash drain on its parent, resulting in Zylotech reporting losses in many of its financial reports despite breaking even or generating small profits from the sale of digital video and security products.

4.9. The previous Managing Director of Zylotech, Mr Bernard McGeorge passed away on 19 August 2006.

4.10. Under Mr McGeorge's direction, the strategy of the Business in the digital security solutions industry had been to improve the Company's products and to compete directly for tenders to supply its products to large enterprises in the Australian market.

4.11. Many of the tenders that Zylotech submitted were rejected on the grounds that the company was unable to offer a full service option for customers beyond their existing suite of products and technical offering, was untried in the market and/or was unable to raise sufficient performance guarantees.

4.12. On 21 August 2006, Mr Nicholas Sikiotis was appointed as Managing Director, Chief Technical Officer and Chief Executive Officer.

4.13. Mr Sikiotis and his new Board changed the business strategy of Zylotech to one based on teaming agreements with the larger suppliers in the market, whereby the larger suppliers include Zylotech products and solutions in their tenders, allowing Zylotech to participate in tenders for which they would not otherwise be considered.

Operations

Business Model

4.14. Under the previous business model, the Company lost a number of tenders and only won one major contract. Management have advised that the main cause for the inability to win tenders was a combination of related factors concerning the short commercial history of the Company, the lack of a strong balance sheet and the inability of Zylotech to raise bank guarantees of up to $15 million requested by major customers to cover the costs of major delays to projects.

4.15. Under the new business model, partnerships are entered into with a major contractor after Zylotech and their technology have been reviewed and/or audited by that company.

4.16. The partnerships are crystalised through "teaming agreements" with leading industry technology and service suppliers. The Company has recently announced teaming agreements with the following suppliers:

- Diebold Australia – Announced 21 January 2007
- Tenix ESD – Announced 7 March 2007
- IBM Australia – Announced 9 March 2007

4.17. In return, these companies are able to rely on Zylotech to provide the technology needed to service their customers without needing to devote resources to develop separate competing products, thereby allowing them to focus on other aspects of the tendered services and client relationship.

4.18. The general terms of the teaming agreements include:

- open ended statements about the intention of the companies to work together, with the specific details of tenders and projects captured in separate contracts.

- limited exclusivity granted to partners in many cases, whereby Zylotech agree to only submit one tender for any particular customer or project. This enables their teaming partner to be sure that Zylotech products are only offered in their tender document and not with any competitors.
- the teaming partners agree to use Zylotech's products and services to complete the contract should the tender be successful.
- in a number of teaming agreements, the transfer of the business of Zylotech or significant changes in shareholdings give the teaming partners the right to cancel the agreements

Industry conditions

Market Summary

4.19. The security services market in Australia is very broad covering many types of products and services, including security manpower, surveillance, access control and monitoring products that are offered to both nationwide enterprises and single-site local businesses.

4.20. Within this broad market, Zylotech and their competitors offer solutions derived from products that combine surveillance technology and access controls.

4.21. Zylotech currently offer a suite of security solutions that are based on current technologies for capturing, manipulating and storing surveillance feeds. These products can be integrated with the operating and access control systems of other suppliers.

4.22. The directors believe that the suite of security products offered by the Business represent a 'fourth generation' product line. Refer Appendix B for a description of the various generations of products.

Zylotech Products

4.23. Zylotech distinguishes its product offering from third generation products through the customisation of components, the flexibility of its systems and through the synchronizing product features with the security solutions offered by their teaming partners.

4.24. Customisation of components – Zylotech purchase standard components and cameras for their devices from a variety of sources. These goods are largely homogenous and suppliers can be replaced quickly if supply is restricted or pricing pressures arise. Zylotech offer customers a suite of products constructed from these standard components and packaged in more attractive units designed by the company.

4.25. Flexibility of Systems – Zylotech's systems are state of the art in the digital security solutions industry, incorporating aspects that competitors usually have some, but not all of, in their offerings:

- Integrated security surveillance on site with backup power supply and the option of wireless transmission of images
- Internet connectivity and remote storage of information on virtual private networks established and managed offsite
- Remote storage location for hard disks at a physical address separate from the cameras and from the monitoring site.

- Multiple internet logins for camera monitoring from remote locations. System tracks number and addresses of users logging into camera or storage system.
- Single point internet access to monitoring network removes the need for intensive wiring of monitoring base and allows network monitoring rooms or entire security providers to be replaced at reduced cost to customer in the future.
- Automated alerts to security personnel, police and/or on-site computers in the event of a break in, fire or other incident.

4.26. Synchronisation with technology of other suppliers – Zylotech author some of their own software and although they have established a pre-designed suite of products to suit most situations for large projects the company retains the ability to customise their products and solutions to integrate with other providers. For example, this would allow face recognition software in their camera systems to cross reference employee identities with a teaming partner's access pass system and permit or deny access to monitored rooms via remote control of doorway security systems and alarms.

4.27. These generational advantages are all based on combinations of existing components in the marketplace, so the main protection for the Company's intellectual property is first mover advantage.

4.28. Zylotech maintain a store of product components onsite in their Sydney offices to allow for filling of small emergency orders, but they generally deal with larger corporations for whom manufacturing and delivery timeframes are contractually agreed in advance, so the need for spare components is limited.

4.29. For large orders, the production specifications of pre-packaged products from the Zylotech range will be sent overseas along with a member of the Zylotech technical team and manufactured faster and more cost effectively than can be achieved by the technicians in Zylotech's offices.

<u>Competition</u>

4.30. Within the digital security solutions market, Zylotech have the products and solutions to meet the needs of two types of customer:

4.31. Single-site security – usually a small network of cameras and a recording device. This would include a single warehouse or local store. This market is saturated with homogenous products that are mass-produced to meet the needs of most lower-end users and priced accordingly. Zylotech's suite of products do compete well with these devices on functionality, however the specialist nature of their products and the additional features that are built in to provide enterprise security solutions mean that Zylotech cannot compete on cost in this market.

4.32. Enterprise security – combines the technology of receiving and storing video feeds with features specific to larger enterprises, such as multiple sites wired into central storage and monitoring facilities, access card systems, remote login to security systems and security force management. Zylotech's suite of feature-rich products provide connectivity with existing enterprise security systems and enable many of these features to be enhanced when Zylotech's systems are included in the tender.

4.33. Zylotech is presently unable to service all of the requirements of larger enterprises on its own and too expensive to compete for single-site customers on a price basis. The current strategy of the company to team with larger companies on tenders provides a means of generating demand for their product that could not be achieved as a stand-alone provider of security solutions.

Customers

4.34. Managers have identified a list of existing and potential customers for the year ended 31 December 2007 on the basis of work carried forward from 2006, likely tenders based on teaming agreements and estimates based on prior years.

Historical Financial Performance

4.35. According to the Company's consolidated financial statements the company has incurred losses in the previous four financial years.

4.36. In the last 2 years, the costs of research, development and subsidiary companies have exceeded gross margins from the sale of product.

4.37. We have been advised by Zylotech's management that the main contributors towards the reported losses have been:

- Administration and development costs relating to Sonacom products without achieving any material sales of Sonacom products;
- Significant Research and Development costs have been incurred whilst re-tooling existing digital video technologies into security products all of which have been expensed in the period they were incurred; and
- The unavailability of a saleable suite of products until mid 2006 whilst development and testing work was undertaken.

4.38. Following the changes made to the Business model in August 2006, there have been significant improvements in the prospects of the business. For this reason, management believes that the historical trading results are not indicative of the company's future prospects.

Projected Financial Information

4.39. Projections of the financial performance of the Business have been prepared by the company for the year ended 31 December 2007 based on possible scenarios for sales resulting from the new teaming arrangements and existing sales avenues.

4.40. We reviewed the projections and in our opinion the basis of which they are prepared are reasonable. Where possible we agreed specific sales opportunities to teaming agreements and tenders lodged. In some instances, entries were included on the basis of orders received although the majority of the sales projections were at various stages of consideration but not confirmed. Accordingly, as with all projections, there is a degree of uncertainty as to whether the projections will be achieved.

5. Choice of Valuation Methodology

5.1. The capitalisation of earnings method (CEM) is usually considered the most appropriate method for determining the value of a business that is profitable and a going concern. Zylotech's digital security service business is projected to achieve profits for the 2007 calendar year. However, this method is usually applied when the company has a history of relatively consistent profitable annual results that are a guide for future performance.

5.2. The discounted cash flow method (DCF) is also an appropriate method for valuing a company that is a going concern but whose past results are not a good indication of future earnings.

5.3. Zylotech has a history of losses and a recent change in business focus to capitalise on teaming arrangements for its digital surveillance products. Normally, this would dictate the use of a discounted cash flow methodology. However, the absence of reliable forecasts after a 12 month period makes it difficult to prepare a valuation on a discounted cash flow basis.

5.4. The company has prepared a financial projection for the 12 months ended 31 December 2007. In our view these projections can be used as a basis for determined the future maintainable earnings of the business.

5.5. Notwithstanding the limitations of the capitalisation of earnings method, in the circumstances, it is the most appropriate method to value the business. The risk of not achieving the projected results, in particular, the risk of not being awarded the various tenders will be accounted for in the choice of capitalisation rate. It should be noted that there could be significant variation in the projections if some or all of the tenders are not awarded which may cause the valuation to be too high or too low depending on the outcome of those tenders.

5.6. The market price method is also an appropriate method to value the business as the company's share price is publicly listed and will be used to test the reasonableness of the value determined under the capitalisation of earnings method. Regard will be given to the size of the company's market capitalisation and low sales volumes that may distort the share price for the company.

6. Valuation of Zylotech Business

Future Maintainable Earnings (FME)

6.1. We have based our estimate of future maintainable earnings on the projections prepared by the company for the year ended 31 December 2007.

6.2. These projections include a number of factors including the status of tenders and contracts, unidentified sales opportunities project product costs and costs of sales and overheads and general expenses.

6.3. The future maintainable earnings of Zylotech, based on the projections is $1.82 million (being an approximation of net profit after tax). It should be noted that there could be significant variation in projections if some or all of the tenders are not awarded which may cause the valuation based on this earnings estimate to be too high or too low depending on the outcome of those tenders.

Determining the Capitalisation Rate

6.4. The capitalisation rate to be used should reflect the risks associated with the Company achieving its future maintainable earnings. It is a composite of the risk free rate and a premium for risk. The 10 year bond rate is usually adopted as the risk free rate and at the date of this report was 5.7%.

6.5. It should also include a factor for growth in FME as FME is a single point estimate of the Company's earnings and does not take account of future growth.

6.6. Capitalisation rates (after tax) in the range of 16.6% to 20% are considered appropriate given the stage the company is at and the risks associated with it.

6.7. Capitalisation rates are also expressed as a multiple of earnings or price/earnings ratio (P/E ratio). P/E ratios are the inverse of capitalisation rates. For example, a P/E of 5 times earnings is a capitalisation rate of 20% and a P/E of 6 times earnings is a capitalisation rate of 16.6%

6.8. An analysis of the specific risk factors that affect the company and the industry in which it operates are included in Appendix C. In summary, the lack of confirmed sales and the early stage of the company's sales order lifecycle require a discount to the P/E ratios normally associated with these types of companies. The level of discount is mitigated by the signing of the recent teaming agreements which has given the company access to tenders and sales opportunities that they would not have accessed on their own account.

6.9. P/E ratios for publicly listed companies are generally available because prices are quoted on the stock exchange daily and listed company earnings published at regular intervals (earnings being NPAT). However, some companies, such as Zylotech, do not have a P/E ratio because they have a history of losses in which case we look to comparable listed companies or the industry sector P/E ratios for guidance. At the date of this report the P/E for the Technology and Hardware sector (Zylotech's ASX industry classification) of the ASX was 12.89 times earnings.

6.10. The stage of the business lifecycle means that there are a number of possible growth scenarios for the business based on teaming agreements and the opportunities for sales orders presented by those teaming arrangements. Accordingly, we believe that the choice of capitalisation rate should be a range to accommodate the different scenarios for growth. The size of the range is indicative of the level of uncertainty surrounding the chances of securing all or some of the tenders currently being pursed and other opportunities arising in the future.

6.11. The capitalisation rate range selected represents a discount to the industry sector P/E of between 53% and 61% which is considered reasonable given the stage of the company's development and the uncertainty surrounding its sale projections.

Business Value

6.12. The value of the Business of Zylotech using an after tax FME of $1.82 million and capitalisation rates between 16.6% and 20% is in the range of $9.1 million to $10.96 million as shown in the following table:

Calculation of Business Value	$million	$million
FME	$ 1.82	$ 1.82
Capitalisation rate/Price earnings ratio	16.60%	20.00%
Business Value	$ 10.96	$ 9.10

6.13. We note that the draft agreement with QuikTrak provides for the purchase of Business Assets whereas the value of the Business of Zylotech also includes liabilities for payables and provisions required to operate the business and book debts which are not included in the definition of Business Assets. Based on our review of the financial statements for Zylotech for the year ended 31 December 2006 it is our view these amounts are not material and we have not adjusted our calculation of the Business of Zylotech for these items in order to compare them to the amount offered by QuikTrak for the Business Assets.

Company Value

6.14. The value of the Company includes the value of the Business and surplus assets (if any) and the Value of investments in subsidiaries.

6.15. I have considered the financial statements of Zylotech and do not consider there to be any surplus assets in the Company.

6.16. The Value of investments in the Sonacom subsidiaries should reflect the underlying value of the Sonacom businesses. As these businesses have made consistent losses, are not generating sales and will require investments of cash and resources to being production of products, I assign no value to the shares that Zylotech owns in these companies.

6.17. On this basis, I have determined the range of Values for Zylotech to be between $10.96 million and $9.1 million as follows:

Calculation of Company Value	$million	$million
Business Value per above	$ 10.96	$ 9.10
Add: Surplus Assets	$ -	$ -
Add: Value of Subsidiaries (Sonacom)	$ -	$ -
Company Value	$ 10.96	$ 9.10

Value of shares in Zylotech before Transaction

6.18. At the date of this report, 96,902,582 Zylotech shares have been issued. With a range of company values between $9.1 million and $10.96 million, the value per share of Zylotech in this valuation is between 9.4 cents and 11.3 cents a share as calculated below:

Calculation of Share Value - Pre placement Announced 12 March 2007		
Company Value per above	$ 10,963,855	$ 9,100,000
Total Shares on Issue	96,902,582	96,902,582
Value per Share	$ 0.113	$ 0.094

7. Comparison of Share Values

7.1. We have adjusted the value of a share as determined above for the recently announced Share Purchase Plan.

7.2. At the date of this report, Zylotech have issued a Share Purchase Plan for up to 29,070,775 shares (taking the number of shares up to a maximum 125,973,357 if the Placement is fully subscribed). These shares are to be issued at 4.2cents a share.

7.3. The additional funds raised by the Placement will be a maximum of $1,220,973.

7.4. Using the company value determined in section 6.17, the value of the Company after the Share Purchase Plan and without accepting the Transaction is between $10.32 million and $12.18 million as follows:

Calculation of Share Value - Post placement Announced 12 March 2007		
Company Value per above	$ 10,963,855	$ 9,100,000
Add: Estimated Funds Raised (30% Issued capital @ 4.2c)	$ 1,220,973	$ 1,220,973
Company Value after placement	$ 12,184,828	$ 10,320,973

7.5. The value per share of Zylotech shares assuming that the Share Purchase Plan is fully subscribed is between 8.2 cents and 9.7 cents a share as shown in the following table

Calculation of Share Value - Post placement Announced 12 March 2007		
Company Value per above	$ 10,963,855	$ 9,100,000
Add: Estimated Funds Raised (30% Issued capital @ 4.2c)	$ 1,220,973	$ 1,220,973
Company Value after placement	$ 12,184,828	$ 10,320,973
Total Shares on Issue - per above	96,902,582	96,902,582
Add: Estimated Shares to be issued (30% Issued Capital)	29,070,775	29,070,775
Expected Issued Shares after placement	125,973,357	125,973,357
Value per share	$ 0.097	$ 0.082

Value if Transaction occurs

7.6. If the shareholders approve the Transaction at the AGM, the business of Zylotech will be exchanged for $2million in QuikTrak shares.

7.7. The value of Zylotech after the Transaction will be $2.0 million excluding an proceeds from the Share Purchase Plan as calculated in the following table:

Calculation of Company Value	$million	$million
Shares in QuikTrak	$ 2.00	$ -
Add: Book debts and cash on settlement	$ -	$ -
Add: Value of Subsidiaries (Sonacom)	$ -	$ -
Company Value	$ 2.00	$ -

7.8. The draft Business Asset Sale Agreement with QuikTrak provides that Zylotech retains the Excluded Assets of Zylotech. The Excluded Assets per that agreement are book debts, cash on hand and at bank and any bank deposits. At 31 December 2007 the value of these Excluded Assets per Zylotech's preliminary final report totaled $1.13 million. Zylotech's payables per that report were $0.34 million leaving a surplus of $0.79 million. We have assumed that all employees of Zylotech will transfer to QuikTrak and Zylotech will not have any liabilities for employee entitlements. It is likely that these funds are required to fund the operations of the business until the Transaction takes place in which case they will not impact of the calculation of Zylotech's share price if the Transaction proceeds. Alternatively, if the value of the Excluded Assets at completion are similar to the values at 31 December 2006 we estimate that, if the Transaction proceeds, the share price will greater.

7.9. Using this valuation, the value of a share in Zylotech after the Transaction occurs would be 2.1 cents or 2.9 cents a share if the Excluded Assets have a value similar to the balances at 31 December 2006 as shown in the following table:

Calculation of Share Value - Transaction accepted		
Company Value per above	$ 2,000,000	$ 2,792,308
	$ -	$ -
Company Value	$ 2,000,000	$ 2,792,308
Total Shares on Issue - per above	96,902,582	96,902,582
Add: Estimated Shares to be issued (30% Issued Capital)	-	-
Expected Issued Shares after placement	96,902,582	96,902,582
Value per share	$ 0.021	$ 0.029

7.10. The value of Zylotech shares before the Transaction and before the Share Purchase Plan is between 9.4 cents and 11.3 cents a share compared with the Quiktrak offer of 2.1 cents per share or 2.9 cents per share. The weighed average share price for Zylotech for the 30 days to 9 March 2007 was 4.5 cents a share and the closing share price on 15 March 2007 was 9.5 cents per share.

7.11. On the basis of the above we conclude that the offer is not fair because:

- We assess the value of the business of Zylotech to be between $9.1 million and $10.96 million which exceeds the offer price from QuikTrak of $2.0 million.

- We assess the value of a share in Zylotech before the Transaction to be between 9.4 cents and 11.3 cents a share which exceeds the value of a share in Zylotech if the transaction occurs of between 2.1 cents per share or 2.9 cents per share. The assessed value of Zylotech shares incorporating the Share Plan offer are also higher that the QuikTrak offer.

- Further our conclusion is supported by, the weighted average share price of Zylotech for the 30 days to 9 March 2007 of 4.5 cents per share and the closing price for Zylotech shares on 15 March 2007 of 9.5 cents per share both of which exceed the price of a Zylotech share given by the QuikTrak offer.

7.12. In making our assessment of the Value of a share in company we have not considered the effect on the share price of the issue of shares contemplated in resolutions 7, 8 and 9 of the Notice of Meeting.

8. QuikTrak Networks Limited

Ownership and Corporate Structure

8.1. QuikTrak is an Australian listed company based in Artarmon, Sydney New South Wales. Although a publicly traded company, information provided by QuikTrak indicates that the top ten shareholders in the company hold approximately 54% of the share capital. Within the top ten, the Pallister Family controls at least 30% and the Unterweger Family Controls approximately 3% of the share capital[1].

8.2. The company was initially incorporated on 14 March 1969 and changed its name on 12 July 1995 from Leonard Oil NL[2].

Overview of Business

8.3. According to the Quiktrak website, QuikTrak is a telecommunications company that specialises in providing solutions for location, tracking and monitoring of vehicles, people, mobile and fixed assets.

Overview of Industry/Technology

8.4. QuikTrak owns and uses its proprietary, patented Direct Sequence Spread Spectrum telecom network dedicated to security monitoring, tracking and location of assets including static and mobile security.[3]

8.5. QuikTrak has recently developed technology allowing them to expand from vehicle tracking to property and general asset tracking and security.[4]

8.6. QuikTrak has advised that they intend to expand into the Chinese market by partnering with China Alarm Holdings, a large Chinese company already in the market.[5]

8.7. The expected contract provides for potential sale of 100,000 transponders in the first year and expected growth from there. William Buck do not have access to the internal documents or contracts of QuikTrak, as such, we are unable to comment on the state of the contracts nor the probability of their success.[6]

Financial results and Projections

8.8. According to the Half Year Report issued by QuikTrak for the period 1 July 2006 – 31 December 2006, there were 357,495,665 shares on issue at the end of the period. Since the end of the year, no further share issues have taken place.

8.9. The closing share price on 28 February 2007 for QuikTrak Networks Limited was $0.16 per share. This provides a market capitalisation of $57,199,306. The half yearly report also advises that the Net Tangible Asset ("NTA") backing per ordinary share is $0.0015 per share. This provides a NTA backing of $536,244.

[1] Source: Vantage Analysis report commissioned by Quiktrak – page 2
[2] Source: www.asic.gov.au – company search
[3] Quiktrack 2006 Annual Report
[4] Source: Vantage Analysis report commissioned by Quiktrak –page 1
[5] Source: Vantage Analysis report commissioned by Quiktrak – page 1
[6] Source: Vantage Analysis report commissioned by Quiktrak – page 2

8.10. This represents a significant value attributed to the intangible assets of QuikTrak.

8.11. The annual report for the year ended 30 June 2006 indicates the following financial performance:

	Jun 06	Sep - Jun 05
Revenue	$ 3,560,300	$ 2,668,066
EBITDA & Impairment	$ 625,889	($ 753,658)
Interest Income	$ 91,918	$ 1,399
Interest Expense	($ 24)	($ 18,855)
Depreciation	($ 298,152)	($ 283,441)
Amortisation	($ 145,706)	($ 20,710)
Impairment	($14,230,873)	
Income Tax		
Net Profit	($13,956,948)	($ 1,075,265)

8.12. No Earnings Per Share can be calculated due to the loss position of the company.

8.13. The 2006 Financial year indicates a profit before impairment loss of $273,925. Retained losses to 30 June 2006 are reported as $15,032,212.

8.14. The Half Year Report issued by QuikTrak for the 6 month period ended 31 December 2006 reports the following:

	Dec 06	Sep - Dec 05
Revenue	$ 1,516,858	$ 1,170,435
EBITDA & Impairment	($ 581,267)	($ 626,751)
Interest Income	51,830	23,276
Interest Expense	($ 135,000)	($ 24)
Depreciation	($ 159,992)	($ 166,982)
Amortisation	($ 153,048)	-
Impairment	-	($13,507,138)
Income Tax	-	-
Net Profit	($ 977,477)	($14,277,619)

8.15. No Earnings Per Share can be calculated due to the loss position of the company.

8.16. The Half Year Report submitted to the ASX records total revenue of $2,539,371. This includes other income being $23,276 as Interest Income and $999,237 for debts forgiven.

8.17. The cash position of QuikTrak in the 1st half of 2007 increased by $1,068,846, Included in the cash movement is cash received from borrowings and share issues of $5,006,472. Excluding such cash receipts, the businesses cash position decreased by $3,937,626. Cash on hand at 31 December 2006 is $2,316,804.

8.18. According to Note 1 of the 2006 Annual Report, financial accounts for QuikTrak have continued to be prepared on a going concern basis. This is because the Directors have indicated that this is appropriate for the following reasons:

- The Economic Entity's business plan forecasts a significant increase in its customer base and revenues through the on-going development and commercialization of its products.
- The Directors believe that the company will be able to raise additional funds through capital raisings when required.

8.19. The company exited voluntary administration in August 2005. Since August 2005, the company has raised capital through share and convertible note allotments as follows:

- 10 August 2005 — 20m shares at 10c per share – as part of re-listing after administration;
- 2 November 2005 — 4m shares at 35c with Richard Pratt's Thorney Holdings Pty Ltd;
- 14 December 2005 — 11.4m shares at 35c per share; and
- 26 September 2006 — 27.5m 10% 2 year convertible notes at 20c per note.

8.20. In order to advise potential investors with the "position and prospects of the company"[7], QuikTrak commissioned an independent report by Vantage Analysis. This report is available on QuikTrak's own website.

8.21. Vantage Analysis discusses the potential of Quiktrak if it succeeds with its attempts to enter the Chinese market.

[7] Source: Vantage Analysis Report – Page 23

9. Valuation of QuikTrak

9.1. As outlined in section 2.9, there are 5 commonly accepted valuation methodologies when considering the value of a business.

9.2. ASIC Policy Statement 75 suggests that the basis of valuation between Zylotech and QuikTrak should be applied consistently. However, we are not able to perform an earnings based valuation on Quiktrak because we do not have access to the relevant information from QuikTrak. A request for such information was declined by QuikTrak on the grounds that the information being requested was commercially sensitive.

9.3. Accordingly we have considered the company's market price in the light of publicly available information. Our findings are as follows.

- The consideration is comprised solely of shares in QuikTrak. According to the report prepared by Vantage Analysis dated October 2006 the shares in QuikTrak are closely held with the major shareholder owning 30% of the issued shares and the top 10 shareholders having 54% between them;
- There is no consistent history of profitable operations. For the year ended 30 June 2006 QuikTrak earned a net profit of $273,925 before an impairment write-down of $14,230,873. The financial results for the six months to 31 December 2006 show a loss of $977,477 for the period.
- The net tangible asset backing per share according to the half year report to 31 December 2006 is 0.15 cents per share which compares with a share price of 17 cents per share.

9.4. On the basis that the shares in QuikTrak are closely held it is our opinion that the shares are illiquid and the current share price may not be a reasonable indication of the value of QuikTrak shares.

9.5. In the absence of other information we adopt the market price of the shares in Quiktrak offer given by its volume weighed average price for the 30 days to 9 March 2007 in order to calculate the number of shares to be issued to Zylotech if the Transaction is accepted. On this basis Zylotech will hold approximately 3.25% of the issued share capital of Quiktrak.

10. Advantages and disadvantages of the Transaction

10.1. The advantages and disadvantages to the shareholders of Zylotech in proceeding with the Transaction compared with the company's prospects if it did not proceed are as follows:

Advantages

10.2. Zylotech acquires shares in QuikTrak

10.3. QuikTrak has its own business and the Zylotech shareholders would benefit from any increase in value of that business as well as Zylotech's business. However, we note that this may be outweighed by the dilution of the interests of the Zylotech shareholders in the business of Zylotech once it is transferred to QuikTrak.

10.4. There is no need for Zylotech to approach shareholders or the market to obtain additional funding for the business growth and working capital requirements.

10.5. Employee liabilities of Zylotech will be assumed by Quiktrak.

Disadvantages

10.6. The value of the shares in Zylotech based on market value (volume weighted average of 4.5c per share for the 30 days to 9 March 2007) or the value in this report (9.4 c to 11.3c per share) is higher than the offer made by QuikTrak (2.1c per share).

10.7. Zylotech will no longer have an active trading business, apart from its interests in Sonacom which is not viable at present.

10.8. Zylotech is reliant on QuikTrak to declare dividends to provide income to Zylotech which the Company requires to fund corporate overheads and pay dividends to shareholders. Such dividends may not occur in the short term.

10.9. Zylotech may de-listed while the Directors provide ASX with a satisfactory proposal for the future business activities of Zylotech.

10.10. Zylotech shareholders through Zylotech are a minority shareholder in QuikTrak. A direct holding in QuikTrak would produce a greater return because the dividend would not be reduced by the corporate overheads of Zylotech. The same applies if the shares are sold.

10.11. Any increase in the value of the Zylotech Business after its acquisition by QuikTrak will produce a diluted return to Zylotech Shareholders compared with not proceeding with the Transaction. Although Zylotech shareholders would benefit from an increase in the value of the QuikTrak business.

10.12. The ongoing value of Zylotech will be dependent on the performance of another company.

10.13. If the Transaction does not proceed, 100% of the cash proceeds from increased sales and Business performance will remain with Zylotech, subject to the Company being able to raise sufficient funds to meet working capital requirements. If the Transaction proceeds, the returns to Zylotech shareholders are significantly diluted.

Zylotech shareholders are significantly diluted.

10.14. The continued operations of Sonacom would not be immediately viable if the Transaction proceeds as the employees necessary to operate the business and produce sonar buoys would be transferred with the Business and the cash resources of Zylotech would be restricted.

Alternatives to the Transaction

10.15. Should the Transaction not proceed, the projections of sales, costs and working capital prepared by management indicate that Zylotech would require additional working capital to operate the Business in the short term.

10.16. The directors of Zylotech have indicated that they will seek to access the following methods for obtaining this funding:

- Share Placement Plan – on 12 March 2007 Zylotech announced a Share Placement Plan with under which additional shares up to 30% of the company's existing share capital would be issued to existing shareholders at $0.042 per share. If fully subscribed, this share placement will raise $1,220,972.
- Future issues of shares as provided in resolution 8 of the Notice of meeting.
- Overseas production finance – For large orders, overseas production costs can be financed with foreign governments.
- Debtor factoring – Large sale contracts could be financed with an Australian Financial Institution

Conclusion

10.17. In our opinion, disadvantages of proceeding with the Transaction outweigh the advantages of proceeding.

10.18. Having considered the Value of the offer, the advantages and disadvantages of the Transaction and the alternatives available to Zylotech, we do not believe that it is reasonable for the shareholders of Zylotech to accept the current offer.

11. Information made available

The information made available to prepare this report is as follows:

Zylotech Limited

11.1. Draft Business Sale Agreement between Zylotech Limited and QuikTrak Networks Limited

11.2. ASX Announcments for Zylotech Limited

11.3. Signed and draft teaming agreements with major suppliers

11.4. Internal management information, including products orders related correspondence

11.5. Management projections of sales turnover, margins and likely profitability based on projected sales for the 12 months to 31 December 2007

QuikTrak Networks Limited

11.6. Vantage Analysis Report into QuikTrak Networks Limited business and technology

11.7. Quiktrak Clarification of ASX announcement – acquisition of Zylotech Ltd Business only, not shares (15/1/07)

11.8. Quiktrak ASX announcement – acquisition of Zylotech Ltd (15/1/07)

11.9. Quiktrak Second Quarter Cash Flow Report to December 2006 (31/1/07)

11.10. Quiktrak Appendix 4D Half Year report to 31 December 2006

11.11. Quiktrak Annual Report 2006

11.12. Quiktrak Annual Financial Report 2006

11.13. Quiktrak Appendix 4D Half year report to 31 December 2005

11.14. Quiktrak Appendix 3B New Issue announcement – 13,333,333 unlisted Options issued at 35cents per share expiring 31 December 2007

11.15. Quiktrak Appendix 4E Annual report for year ended 31 December 2003

12. Other matters and disclosures

12.1. William Buck Financial Services (NSW) Pty Limited is licensed under the Corporations Law as an investment adviser and licenced dealer in securities. Mr G Spring is a director and duly authorised person of William Buck Financial Services (NSW) Pty Limited. He is a Fellow of the Institute of Chartered Accountants in Australia and has the professional qualifications and experience to prepare this report.

12.2. All calculations in this report and all expressions of opinion are based on our analysis of the documents sighted and discussions with various company officers from Zylotech and QuikTrak. It is also based on the market and economic conditions that existed at the date of the report, which may change. The report has been prepared by Mr G Spring assisted by staff who acted under his direction and supervision.

12.3. For the purpose of preparing this report, we have relied on the materials listed in section 11 – Information made available and on information supplied by the directors and other officers of Zylotech and QuikTrak. We have not carried out any work in the nature of an audit in respect of the financial information contained in the documents noted in section 11 nor have we attempted to independently confirm the information contained in the financial documents or other information provided to us and accordingly express no opinion as to the truth or accuracy of the financial information.

12.4. The officers of Zylotech have prepared the financial projections used in this report. The projections involve subjective judgement and analysis and are subject to significant uncertainties and contingencies that are outside our control. Accordingly, no representation is made that any projection will be achieved. Actual events may vary significantly from the projections and the assumptions on which the projections are based.

12.5. Neither the firm nor any member of the firm or the associated firm has had any shareholding in or is associated with Zylotech or QuikTrak. William Buck Financial Services (NSW) Pty Limited is entitled to a fee for its professional services in preparing this report. The fee for this report will be charged on a "time cost" basis in accordance with our standard schedule of hourly rates and disbursement charges which is estimated to be in the vicinity of $27,500 including GST.

12.6. An associated company of William Buck Financial Services (NSW) Pty Limited, William Buck (NSW) Pty Limited has provided services to Zylotech in the past 12 months. The fee received for these services was $21,450, including GST.

12.7. William Buck Financial Services (NSW) Pty Limited provides its consent for this report to accompany the Notice of Meeting and Explanatory Notice.

12.8. This report is not intended for general circulation or distribution, nor is it to be reproduced or used for any purpose other than as outlined above, without written consent from this firm in each specific instance.

12.9. Zylotech has agreed not to make any claim against William Buck Financial Services (NSW) Pty Limited for any losses it may suffer in relation to this report because of the reliance by us on the projections prepared by the company and they have also agreed to indemnify us against any claim arising there from to the extent permitted by the law.

12.10. In preparing our report we have assumed the following:

- The responses provided to our requests for information are complete and final unless other wise indicated;
- There are no other documents except those disclosed to us that are material to the areas requiring examination by us;
- Any copied documents included in our review are complete and reflect the original;
- All representations made to us by officers and employees of Zylotech and QuikTrak and have been accurate and not misleading;
- No document we examined has been revoked or varied, except as disclosed to us; and
- The officers and employees who make any representations are competent to do so.

Yours faithfully,
WILLIAM BUCK FINANCIAL SERVICES (NSW) PTY LIMITED
ABN 93 002 367 839

Mr. G Spring FCA MBA
Director and duly authorised representative

13. Glossary

Annual General Meeting - AGM scheduled to be held by Zylotech on 19 April 2007;
ASIC - Australian Securities & Investment Commission;
ASX - Australian Stock Exchange;
Business - The digital security solutions business of Zylotech;
Business Assets – are defined in the draft business asset sale agreement with QuikTrak to include owned Plant and Equipment, Stock, Contracts, Business records, Goodwill, Intellectual Property, Licenses and lease but not Book Debts, Cash in hand or at Bank and Bank Deposits.
Company - Zylotech Limited;
CEM - Capitalisation of Earnings Method;
DCF - Discounted Cash Flow;
EBIT - Earnings Before Interest & Tax;
EBITDA & Impairment - Earnings Before Interest, Tax, Depreciation, Amortisation and Impairment writedowns;
FME - Future Maintainable Earnings;
GICS Industry Group - Global Industry Classification Standard, a joint Standard & Poor's / Morgan Stanley Capital international product aimed at standardising definitions;
Non-excluded Shareholders - The shareholders in Zylotech that will not benefit directly from the Transaction;
NPAT - Net Profit After Tax;
P/E Ratio - Price / Earnings Ratio;
Placement - The Share Purchase Plan announced to the public on 12 March 2007;
QTK - Quiktrak Networks Limited;
Quiktrak - Quiktrak Networks Limited;
Resolution – Resolution number 3 in the Notice of meeting for the 2007 Zylotech AGM.
Sonacom - Sonacom Pty Limited & Sonacom Systems Pty Ltd, subsidiaries of Zylotech Limited;
Transaction - The offer by Quiktrak to purchase the Business of Zylotech for AUD$2,000,000;
Value - Value is defined in Paragraph 2.6;
Vantage Analysis - An independent equity research firm commissioned by Quiktrak to provide information about the performance and opportunities of Quiktrak;
William Buck - William Buck Financial Services (NSW) Pty Ltd, the firm engaged to prepare the Independent Experts Report;
Zylotech - Zylotech Limited;

Appendix A - Summary of Valuation Methodologies

Capitalisation of earnings method (CEM)

The capitalisation of future maintainable earnings method is considered an appropriate method of valuing a business that is a going concern. Under this method, the future maintainable earnings of the business are determined and capitalised at a rate appropriate for the business given the nature of the business, its prospects and the risk associated with it.

The value of a share in the capital of the company is calculated by dividing the value of the company by the number of shares on issue. The value of the company is the capitalised value of the business of the company plus surplus assets and liabilities of the company.

This method is usually used for profitable businesses that are considered to be indefinitely continuing. Growth of earnings from year to year is accounted for in the capitalisation rate.

Capitalisation rates are a composite rate comprising a risk free rate and a premium for risk and also a factor for growth. Adjustments are also made for restrictions of the marketability of the business and minority standing where applicable.

Discounted cash flow method (DCF)

Under the discounted cash flow method the value of a business is represented by the present value of the cash flows that the business is likely to generate in the future. It is the amount an investor would pay now to receive the after tax cash flow from the business over a certain period into the future at a rate commensurate with the investors' risk profile;

This method is appropriate for businesses that are going concerns where future results are likely to vary significantly from year to year including in some cases, loss years and where past results do not reflect the ongoing profitability of the business.

Under this method, careful estimates of the expected cash flows of the business are required which are then discounted to present day dollars using an appropriate discount rate.

Limitations of this approach are:

- projections maybe wrong;
- terminal value too difficult to estimate;
- the longer the period the greater chance that projections will be incorrect

Liquidation basis

A liquidation or auction basis is appropriate if the business does not generate sufficient returns on the assets employed in the business and the business is not a going concern.

Net assets basis

The net assets basis is similar to a liquidation basis but does not contemplate the immediate wind up of the business even though, in the short term, the returns are insufficient.

Under this method the costs of liquidation are excluded and the net tangible assets of the business are valued, including surplus assets and liabilities, at an amount that reflects their use in the business rather than by way of forced sale.

This method is typically used for valuing entities that hold passive investments such as property and shares but can also be applied to trading entities that have a high degree of personal goodwill rather than business goodwill or the return on the assets employed in the business is insufficient in the short term or there are other benefits that accrue to the owners.

<u>Alternate Acquirer</u>

This valuation method considers the amount which an alternative acquirer who (as a result of potential economies of scale, reductions in competition, synergy with existing operations or other factors) would be prepared to pay for the Business of Zylotech. We do not believe this is an appropriate method for assessing a fair value of as we are not aware of any alternate offer for the Business.

<u>Current Market Value</u>

This method uses the most recent quoted price of listed securities to assess a fair value for the company. Care must be taken to assess the impact on price of thinly traded shares (ie. low volumes of shares traded) as the price may not be indicative of the underlying value of the company.

Appendix B – Description of Product Generations

[illegible]	[illegible]	[illegible]
Generation Zero	Camera hooked up to Video Cassette Recorder Records footage on-site in tape format	Outdated technology found at old sites May be inactive and installed as a visual deterrent
Generation One	Digital Camera(s) connected to computer to store device on hard disk	Single camera array or home setup
Generation Two	Digital Camera(s) connect to Digital Video Recorder (DVR) Cheap to make and install as the products are usually mass-produced Usually looks good, well designed DVR is located on site and can be removed by thief or vandal Some systems have remote login over internet as a feature	Small to Medium businesses Looks good and is cheap to buy and install Meets the minimum requirements of a large number of unsophisticated users Often multiple DVR racks are used in enterprise solutions Directly competes with Zylotech on component price basis
Generation Three	Digital Cameras are connected to on-site encoders that transmit the signal to a remote storage device via a Virtual Private Network (VPN) on the internet. Offsite storage Internet access to camera feeds Physical proximity to data storage is usually required to review old recordings	Enterprise wide solution Lacks a number of features of Zylotech's product suite, but is similar in price due to need for customised components, allowing Zylotech to compete on specifications.
Generation Four	Digital Cameras are connected to on-site encoders that transmit the signal to a remote storage device via a Virtual Private Network (VPN) on the internet Offsite storage Internet access to camera feeds Users logging in to system are tracked, their number and access is limited All physical storage is separate from monitoring facilities Wireless internet allows security personnel to access data storage on the move and data store to remain physically removed from all personnel and contractors	Enterprise wide solution Zylotech offer these products There are currently no other competitors who offer all of the features included in Zylotech's suite of products

Appendix C – Factors affecting premium for risk

The premium for risk is a function of factors specific to the Company that either increase or decrease the risks associated with the business of the Company. The following table summarises the factors we have identified for the company that we believe will have effect on the volatility of the Company's earnings and an assessment of the impact on the company's risk profile.

Factor	Description	Degree of Influence
Factors that Increase Risk		
Capacity	Zylotech's capacity to process and deliver multiple, large-scale contracts has not been tested at the levels indicated in the projections. The directors have formulated a logistics plan to roll-out orders which seems achievable.	Medium
Working capital requirements	The projections highlight additional working capital requirements in future periods. The recently announced Share Placement Plan mitigates this risk. Further, the company has low debt levels and if sales eventuate will have the capacity to borrow on some basis.	Low to Medium
Historical financial performance	The company does not have a history of profitable financial performance. It has incurred losses and has only recently sought new revenue streams through teaming agreements. It lacks an established customer base and order/revenue stream. The teaming agreements mitigate these factors.	High
Small Business	Zylotech is a small market cap company with limited reserves. The risk of the company being bought out, undercut by competitors or being knocked out of tender processes due to their small size is much higher than for established competitors. This is mitigated by the teaming agreements	Medium

Factors that Decrease Risk		
Management Experience and Business Strategy	Qualified and competent management are in place and have implemented a strategy for growth and development.	Medium
Product	Zylotech have a comprehensive suite of products with design and specifications completed and subsequent product generations already in development. Products have been reviewed on a scientific basis by teaming partners before entering into agreements.	High
Progress of Tenders	Zylotech is currently in various stages of tender for their surveillance products.	High
Access to Capital	The directors of Zylotech have identified a number of sources from which to obtain the working capital needed to grow the business and meet the demands of projected customers. These include underwriting the issue of new shares in the Company, obtaining production financing with overseas suppliers or a combination of short and medium term debt facilities. The documents sighted to date indicate that all of these are viable options and that the moneys raised through these methods would be sufficient to meet the needs of the Company.	High
Teaming Agreements	Agreements have been signed or negotiations have reached advanced stages with most major suppliers to enter into teaming agreements for security tenders over the coming year and a number of tenders have been submitted.	High