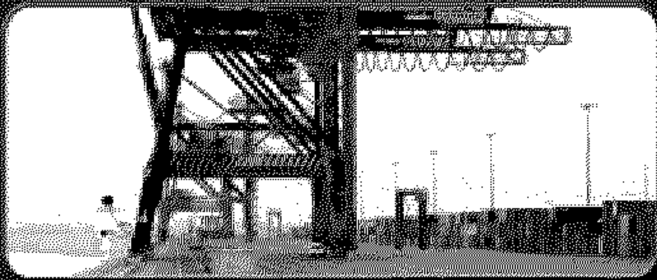
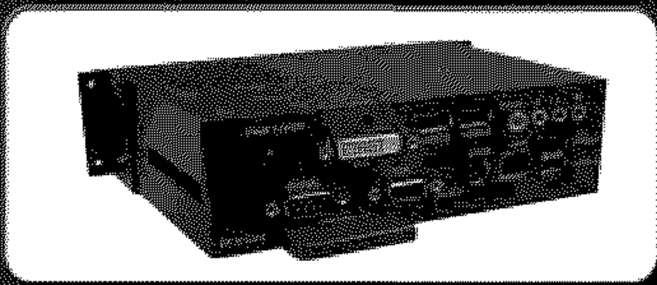
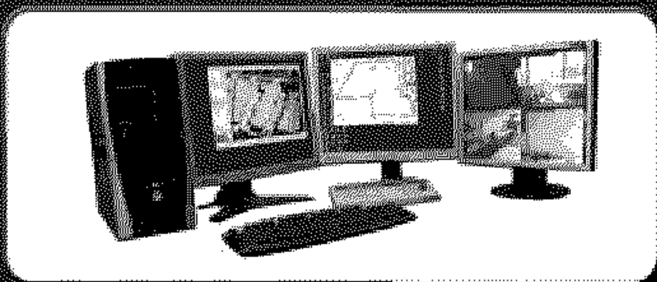
ZYLOTECH

06

ANNUAL REPORT







www.zylotech.com.au

ZYLOTECH LTD

ABN 15 008 720 223

DIRECTORS

A. Unterweger (Chairman)

N. Sikiotis (Managing Director)

J. Wayland

SECRETARY

J. Wayland CA

BUSINESS ADDRESS

Unit 21, 12 Mars Road

Lane Cove, Sydney NSW 2066

Tel: (02) 9427 2134

Fax: (02) 9427 2788

REGISTERED OFFICE

Unit 21, 12 Mars Road

Lane Cove, Sydney NSW 2066

Tel: (02) 9427 2134

Fax: (02) 9427 2788

AUDITORS

Borough Mazars

77 Castlereagh Street

SYDNEY NSW 2000

BANKER

National Australia Bank Ltd

Lower Ground Floor

101-103 Pitt Street

SYDNEY NSW 2000

SHARE REGISTRY

Security Transfer

Registrars Pty Ltd

770 Canning Highway

Applecross WA 6153

Tel: (08) 9315 2333

Fax: (08) 9315 2233

STOCK EXCHANGE

The Company is listed on the Australian Stock Exchange. The Home Exchange is Perth.

OTHER INFORMATION

Zylotech Ltd, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

review of operations

The consolidated result recorded for the Economic Entity for the year ended 31st December was a net loss of $2,127,526. In so doing, the Company has written off all development costs so as to build a secure future.

The Economic Entity is debt free and has once again written off through operating trading results all development costs incurred for both the remote digital video and acoustic surveillance operations.

The low revenues reported reflect the necessary period of consolidation for the Economic Entity. We have, during the last twelve months, invested a significant amount of our limited resources into further development of our suite of surveillance products following the particular further requirements of the follow-up stages of the Siemens/Qantas project. As a result, the principal activity of the Economic Entity during the course of the first nine months of the year was ongoing development. The Economic Entity concentrated on completing these deliverables and further technology developments for the contracts delivered during the previous financial year.

With the passing of the prior Managing Director, the appointments of a new Board of Directors and a new Managing Director, the Economic Entity immediately implemented a new business model and undertook a major restructure and consolidation of its technology offerings, operations and business. It was deemed paramount by the Board of Directors that the Economic Entity could no longer stay as the 'best-kept-secret' in the industry and remain a 'one-major-client' business. The formal adoption of this 'Vision' (Zylotech ASX announcement 13/9/06) meant that the remaining quarter of this Financial Year had to be devoted by the Economic Entity to transform itself from its predominantly Research and Development nature into a strong and confident commercial partner for the Tier 1 partners it was seeking. These subsequently signed-up integrators in the National Security include IBM, Tenix, Honeywell and Diebold.

We consider the significant security enhancements required to be very positive in terms of our future product offerings for the follow-on stages of the Qantas project and into the National Security market. This investment has enabled the business to develop and provide more "fit for purpose" product solutions.

The year to December 2006 reflects a much greater emphasis on product development, consolidation and packaging which, while negatively impacting on measurable sales revenues during the past year, has placed us in a much stronger position to achieve much improved revenue results going forward.

Since September 2006 a new board has brought new strategy, energy and direction. A new Managing Director/CEO is implementing this with staff who are dedicated, passionate and directed to achieving sales and technical goals that will be cash flow positive.

As a result of initiatives taken during the year, there are new "teaming agreements" with major top 100 companies. These teaming agreements agree exclusivity in tendering on selected projects on iconic buildings and National assets. These partners have surveyed the technology available and have chosen Zylotech as the world's best-of-breed technology to deliver quicker, faster and cost effective control to the existing hardware systems installed.

A client, Vodafone has said:"We will reduce our on-going operating expenses, for example, by dramatically reducing false alarms resulting in unnecessary and expensive guard call outs". The totally transformed Zylotech, now specialises in the provision of enterprise surveillance solutions for critical infrastructure. We have already delivered innovative, cost-effective and proven technology and products for high-profile government, defence and industry-based security applications as "world's best practise."

Your company has hardly ever had overseas agents or representatives. We now have agreements and are developing agents in the UK, U.S.A and South Africa – these take time to convert to revenue streams.

As Managing Director/CEO, I promised to:

- Complete the reassessment of our technology, strategy and business model
- Introduce new income streams from Training, Consulting and sub-Contracting
- Optimise and consolidate our product range
- Embark on a concentrated and directed marketing campaign
- Sign new teaming and reseller agreements with several major partners
- Motivate staff to achieve 20% greater efficiency
- Implemented new Price Lists and commissioning structures
- Appoint representatives both interstate and internationally

All these have been achieved.

In addition to funding the development of a range of products for its core video surveillance operations, the Company has also invested $2,471,682 of its funds towards the development of long-life acoustic Sonobuoys and other related technologies through its fully owned subsidiary Sonacom, acquired in August 2002. The latter products referred to have only been completed recently and have just begun to provide a revenue stream for the

Company. Again, all these development costs have been written-off through operational trading results.

In order to respond quickly to sizeable project and demanding lead times, the Company has, at any given time, a significant holding in stock of its core surveillance products and replenishment is always within reasonable timeframes.

The entire core surveillance product IP is solely owned by the Company and therefore we are not reliant on or inhibited by any third-party license agreements.

In summary, the Economic Entity has changed from a technology developer to a company that markets the quickest and fastest management hardware and software for surveillance. It will take time to position Zylotech in the market. We are:

MAKING THE WORLD SAFER AFTER 9/11

During the year, the Company's Managing Director of many years, Bernard McGeorge passed away. Bernard McGeorge played a significant part in the development and direction of the Company and the Company now needs to expand and capitalise on those foundations. We pass on our best wishes to his family.

N. Sikiotis
Managing Director
Directors' report

directors' report

The directors present their report together with the financial report of Zylotech Ltd ("the Company") and the consolidated financial report of the Economic Entity, being the Company and its controlled entities, for the year ended 31 December 2006 and the auditors' report thereon.

1 DIRECTORS & SECRETARY

The directors of the Company at any time during or since the end of the financial year are:

ANDREW UNTERWEGER (CHAIRMAN - NON-EXECUTIVE)

Dr. Unterweger was founder and currently Chairman of Unicorp Financial Services Group and Chairman of QuikTrak Networks Limited. He has over 20 years experience in board and executive management positions spanning financial services, investment banking, private equity and retail industries.

He was appointed to the Board on 5 September 2006 and Chairman on 25 September 2006.

NICHOLAS SIKIOTIS B.S.E.E., M.I.E.E.E. (USA) (MANAGING DIRECTOR)

Mr. Sikiotis is an electrical and electronics engineer and has worked in executive/engineering management roles in Australia, USA and Europe for such organisations as (Swiss) Keller Automation, GEC Australia Ltd, Klockner-Moeller Corporation International and Siemens Ltd.

He was appointed to the Board on 30 April 1998 and was appointed as managing director on 21 August 2006.

JOHN WAYLAND CA (NON-EXECUTIVE)

John Wayland brings to the Company 38 years of financial, communications, technology, manufacturing and business experience. He was Chairman of InterData Pty Ltd, Director of I.D.M. Pty Ltd, Chairman of RMR Worldcom Pty Ltd and currently is a General Manager of Lovells Springs Pty Ltd.

He was appointed to the Board on 5 September 2006 and Company Secretary on 18 January 2007.

BERNARD J. MCGEORGE

Mr. McGeorge has had a lengthy and distinguished career in the full spectrum of the printing and publishing industry, including 27 years with Australian Consolidated Press Ltd in various management roles where he rose to the position of Executive Director. He subsequently spent ten years with the Hannan Group as Group General Manager and was a director of a number of the operating companies, including Federal Publishing Co Pty Ltd and Newsagents Direct Distribution Pty Ltd.

He was appointed to the Board on 15 September 1997, and passed away on 19 August 2006.

SYDNEY J.P. BORG (NON-EXECUTIVE)

Mr. Borg is the principal of PCS Australia Pty Ltd, a systems integration company facilitating networks in the corporate and government areas. He is also a director of Investika Ltd since 1 July 1999.

He was appointed to the Board on 15 June 2000, and resigned 5 September 2006.

VICE ADMIRAL DON B. CHALMERS, AO (NON-EXECUTIVE)

Vice Admiral Don B. Chalmers retired in 1999 as Chief of Navy after a distinguished career spanning 41 years of which the last 11 were spent as a senior officer at the naval one star rank of Commodore and above. He is chairman of CEA Technologies Pty Ltd.

He was appointed to the Board on 22 October 2002, and resigned 5 September 2006.

M. MARSHALL CA, ACIS (EXECUTIVE DIRECTOR AND COMPANY SECRETARY)

Mr. Marshall has held general management or senior financial positions within such organisations as FPC Magazines, Fairfax Media Group, Amalgamated Television Services (ATN 7 Sydney), Australian Guarantee Corporation, Sandvik, Avco Financial Services as well as the accounting profession. He has been the Chief Financial Officer of the Economic Entity since 1999. He is a Chartered Accountant and an associate member of the Institute of Chartered Secretaries in Australia.

He was appointed Company Secretary on 16 May 2005, and was appointed to the Board on 5 September 2006. He resigned as a Director on 8 January 2007 and as Secretary on 18 January 2007.

2 PRINCIPAL ACTIVITIES OF THE ECONOMIC ENTITY

The principal activity of the Economic Entity during the course of the year was the ongoing development and commercialisation of the EYELINK IP SmartCam based video surveillance range of products. In addition, the Economic Entity completed the development of acoustic Sonobuoys and related products and focused on the commercialisation of that range of products and further product enhancements when required.

3 TRADING RESULTS

The net amount of the consolidated loss after income tax attributable to the members of the Economic Entity for the twelve months ended 31 December 2006 was $2,127,526 (2005:loss $779,347).

4 DIVIDENDS

The directors recommend that no dividend be paid. No dividends have been declared or paid since the end of the previous financial year.

5 REVIEW OF OPERATIONS, LIKELY DEVELOPMENTS AND STATE OF AFFAIRS

The Economic Entity continued to operate principally as a developer, purchaser and reseller of EYELINK IP SmartCam digital surveillance range of products and developer and seller of acoustic surveillance Sonobuoys.

The principal activities during the period centred around further development and/or enhancement of the Company's remote digital video surveillance product range; commercialisation of that remote digital video surveillance range and continued activities in the acoustic surveillance area, specifically the on-going R & D development of Sonobuoys with the majority of the core development completed by June 2006 and preliminary endeavours to commercialise these products since.

The Economic Entity completed the development of its SeaWatch long-life Sonobuoy in June 2006 and while further enhancement may be necessary, the products are now in a saleable state. In addition, the Company has further focused on developing enhancements to its remote digital video surveillance range of products following the successful sale of its system to Siemans/Qantas last financial year. This experience and the additional customer requirements have provided the Company with useful knowledge on developing further products and enhancement to our existing product range allowing the Company to offer a better product platform in the year ahead.

CAPITAL AND CAPITAL RAISINGS:

SHARE CONSOLIDATION

As approved at the annual general meeting of shareholders held on the 28th April 2006, the Company completed the 1:25 share consolidation on 12th May 2006.

CAPITAL RAISINGS

The Company raised the following funds during the period:

- $328,626 in August 2006 pursuant to a placement of 12,639,467 fully paid ordinary shares in the Company at a price of $0.026.

R&D TAX CONCESSION

During the year the Economic Entity applied for an R&D tax offset claim for $166,530 (2005:$260,405) under Section 73Q of the Income Tax Assessment Act. Since the end of the financial year, the Economic Entity has received the $166,530 from the Commonwealth.

Other than the matters noted above, in the opinion of the directors there are no significant changes in the state of affairs of the Economic Entity that occurred during the financial year under review not otherwise disclosed in this report or the consolidated financial statements.

Further information about likely developments in the operations of the Economic Entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Economic Entity.

6 FINANCIAL POSITION

The net assets of the economic entity have decreased by $1,798,900 from $3,090,710 at 31 December 2005 to $1,291,810 at 31 December 2006. This decrease is attributable to the following factors:

- Capital raising activities providing net capital of $328,626;
- R&D tax offset claim under Section 73Q of the Income Tax Assessment Act;
- Offset by goodwill impairment of $463,163 and operating losses for the period.

During the past five financial years the economic entity's financial position has been dependent upon capital raisings to fund the development and commercialisation of its core products including net funds of $2,471,682 provided to fund the development of the long life Sonobuoys of the subsidiary Sonacom Systems Pty Limited.

7 EVENTS SUBSEQUENT TO BALANCE DATE

On the 15th January 2007 the Company announced receipt of a formal offer from Quiktrak Networks Ltd to acquire the business operations of Zylotech Ltd. The essential elements of the offer include all the business assets of Zylotech excluding cash, debtors and receivables and include the take up by Quiktrak of all staff and their leave entitlements at the date of transfer. The consideration offered for the above assets is $2,000,000 payable by the issue of the equivalent of $2,000,000 worth of ordinary shares in Quiktrak Networks Ltd based on a volume weighted average price of the ordinary shares in Quiktrak Network Ltd for the 30 days preceding the date of acquisition.

The Company announced its intention to call an EGM of shareholders of Zylotech Ltd to consider the offer and to vote on a resolution to be put at that meeting, however the company has since advised that it will have the offer listed as a resolution to be considered and voted on at the forthcoming AGM of shareholders instead of at an EGM.

The Board of Zylotech Ltd (excluding the Chairman Dr. Andrew Unterweger who as Chairman of Quiktrak Ltd, has abstained from considering the offer) has advised that at the EGM it will recommend to the shareholders that the offer, deemed inadequate, not be accepted in its current form.

During the year ended 31 December 2006 the Economic Entity applied for an R&D Tax Concession under Section 73Q of the Income Tax Assessment Act (refer Note 5) for an amount of $166,530. The Economic Entity has, since the end of the financial year, received $166,530 from the Commonwealth.

Other than as outlined above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Economic Entity, the results of those operations or the state of affairs of the Economic Entity, in future financial years.

8 OPTIONS

At the date of this report, there are no options granted over unissued ordinary shares of the Company.

9 DIRECTORS' MEETINGS

	Directors' meetings		Remuneration committee meetings	
Name	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
A. Unterweger (Chairman)	3	3	1	1
N. Sikiotis	16	15	–	–
J. Wayland	3	3	1	1
S.J.P. Borg (Chairman)	11	7	–	–
D.B. Chalmers	12	12	–	–
B.J. McGeorge	10	9	–	–
M. Marshall	4	4	–	–

10 AUDIT COMMITTEE

The Company does not have a formally constituted audit committee of the directors and secretary as the Board considers that the Company's current position in respect of the composition of the Board, the size of the Company and the minimal complexities involved in its financial activities, the Company is not in a position to justify the establishment of an audit committee. The full Board performs the duties of this committee.

11 INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

THE COMPANY:

- entered into an agreement indemnifying the directors and secretary of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. Agreements for the directors appointed on 5th September 2006 were not entered into until the 9th February 2007. The agreements stipulate that the Company will meet the full amount of any such liabilities, including costs and expenses; and
- had not arranged directors' and officers' liability insurance policy cover since April 2003 due to the difficulty in obtaining appropriate policies and the prohibitive cost of those available, however, is in the process of obtaining cover following the now more readily available cover at a more acceptable price.

12 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

The Economic Entity has established a formal Remuneration Committee during the later part of the financial year and the formal Charter can be viewed on the Company's web site. The Charter of the Remuneration Committee extends the duties to that of a Nominations Committee. The Board considers that the Economic Entity is not yet of sufficient size to warrant the establishment of a separate Nominations Committee. Prior to the establishment of the Remuneration Committee the full Board performed the duties of both the remuneration committee and the nomination committee. The Remuneration Committee is responsible for making recommendations on remuneration policies and packages applicable to Board members and senior executives of the Company. The broad remuneration policy per the formal Charter is to ensure the remuneration package properly reflects the person's duties and responsibilities; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

It is the Remuneration Committee's policy to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities though taking into account the financial position of the Economic Entity and the Economic Entity's shareholder approved limits. The Constitution of the Company specifies that the aggregate remuneration of Directors, other than salaries paid to executive directors, shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is divided between those directors as they agree. The latest determination was at the Annual General Meeting held on the 22 April 1997 when shareholders approved an aggregate remuneration of $100,000 per year. Executive Directors do not receive director fees nor participate in any bonus scheme. The Board as a whole determines the amount of the fee paid to each non-executive director. The amount paid to non-executive directors during the

	Relevant Period	Base Emolument $	Director Fees $	Non-cash Benefits $	Super Contribution $	Total $
The Company and controlled entities						
Directors						
A. Unterweger	5/9/06–31/12/06	–	26,000	–	–	26,000
N. Sikiotis[1]	1/1/06–31/12/06	208,376	–	9,575	–	217,951
J. Wayland	5/9/06–31/12/06	–	19,333	–	351	19,684
S.J.P. Borg	1/1/06–5/9/06	–	8,000	–	–	8,000
D.B. Chalmers	1/1/06–5/9/06	–	8,000	–	–	8,000
B.J. McGeorge	1/1/06–19/8/06	157,211	–	4,137	15,274	176,622
M. Marshall[2]	5/9/06–31/12/06	–	–	–	–	–
Executive Officers						
M. Marshall[2]	1/1/06–31/12/06	132,139	–	–	13,544	145,683
R. Kelly	1/1/06–31/12/06	76,028	–	–	65,643	141,671
M. Magrabi	1/1/06–31/12/06	75,000	–	–	6,750	81,750

1 Appointed Managing Director 21/8/2006.
2 Resigned as Director 8/1/2007 and resigned as Secretary 18/1/2007.

year was $61,333 (2005:$21,000), though in 2006 the remuneration included additional committee functions and a general fee structure more in line with market rates for comparable companies.

All Directors are entitled and encouraged to take up any entitlements they may have under rights issues made by the Company from time to time.

All Directors may be allocated options to acquire shares in the Company under Participants Options Schemes approved by shareholders from time to time, though the last such scheme approved by shareholders at the Annual General Meeting of shareholders held on the 22 May 2002 expired during the year ended December 2005.

Senior executive remuneration packages are recommended and submitted by the Remuneration Committee for approval by the Board based on performance criteria and the Economic Entity's financial performance. Other employee remuneration packages are determined and approved by the Managing Director based on salary market rate indicators, press advertisements, performance criteria and again the Economic Entity's financial state of affairs.

Executive directors do not receive bonuses or performance related remuneration.

Details of the nature and amount of each major element of the emoluments of each director of the Company and the other executive officers of the Company and the Economic Entity receiving the highest emoluments are above.

During or since the end of the financial year, the Company has not granted options to directors or the executive officers of the Company.

No value has been attached to options for the purposes of calculating directors' and executive officers' emoluments paid during the year due to the fact that all options issued have expired.

EMPLOYMENT CONTRACT:

The Managing Director provides his services under a contractor arrangement previously entered into between the parent company and the company Holiward Pty Ltd. This arrangement was initially entered into when the latter company provided the services of Mr. Sikiotis as Technical Director of the parent company. The original arrangement (now expired, though the principles of which continue to be applied) have been extended to include the services of Mr. Sikiotis as the Managing Director and the Technical Director of the Economic Entity. The fees paid to Holiward Pty Ltd under this arrangement are made up of fees for the managing director and technical director role, travel allowance, vehicle expenses, general communications expenses and FBT where applicable. The Economic Entity has reviewed the fee in line with the remuneration applicable to the previous Managing Director. The Economic Entity has achieved a net overall cost saving by appointing Mr. Sikiotis to act as the Managing Director in conjunction to his previous services as Technical Director, in effect saving the cost of one senior executive remuneration package.

13 DIRECTORS' INTERESTS

The relevant interest of each director in the share capital of the Company, as notified by the directors to the Australian Stock Exchange in accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange, at the date of this report is as follows:

Name of Director	Beneficial Interest in Shares
N. Sikiotis	230,646
M. Marshall	–
J. Wayland	7,756 (Indirect)
A. Unterweger	93,600

There are no options to acquire shares in the Company at 31 December 2006. All previously issued options have expired.

14 ENVIRONMENTAL REGULATION

The Economic Entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Economic Entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Economic Entity.

15 PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

16 NON-AUDIT SERVICES

The Board of Directors is satisfied that the provision of non-audit services by Borough Mazars during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed above did not compromise the external auditors' independence for the following reasons:

- all non-audit services are reviewed and approved by the directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 31 December 2006:

	$
• tax compliance	2,800
• assurance related	3,700

17 AUDITORS' INDEPENDENCE DECLARATION

The auditors' independence declaration for the year ended 31 December 2006 has been received and can be found here following.

Dated at Sydney this 23rd day of February 2007.

Signed in accordance with a resolution of the directors:

John Wayland
Director

Nick Sikiotis
Director

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF ZYLOTECH LTD

In relation to our audit of the financial report of Zylotech Ltd for the year ended 31 December 2006, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001;
- no contraventions of any applicable code of professional conduct.

Borough Mazars

BOROUGH MAZARS

P. A. Coll

P Collins
Partner
Sydney
23 February 2007

corporate governance statement

This statement outlines the main corporate Governance practises that were in place during the financial year.

The Directors' of Zylotech Ltd are responsible for Corporate Governance of the Company and its controlled entities (the Economic Entity) and support the principles of the Australian Stock Exchange Corporate Governance Guidelines. To date, due to the size of the Company, the Board has not formally adopted all policies or guidelines required for complete compliance with ASX guidelines. The Board considers that where a policy or guideline has not been adopted completely that alternate polices adopted would be considered appropriate under the circumstances.

	ASX Corporate Governance Council's Best Practice Recommendations.	Zylotech's Compliance
	Principle 1: Lay solid foundations for management and oversight	
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.	Comply
	Principle 2: Structure the board to add value	
2.1	A majority of the board should be independent directors.	Refer attached
2.2	The chairperson should be an independent director.	Refer attached
2.3	The roles of the chairperson and chief executive officer should not be exercised by the same individual.	Comply
2.4	The board should establish a Nomination Committee.	Refer attached
2.5	Provide information indicated in *Guide to reporting on Principle 2.* (including certain disclosure on company website).	Refer attached
	Principle 3: Promote ethical and responsible decision-making	
3.1	Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:	Comply
3.1.1	the practices necessary to maintain confidence in the company's integrity	
3.1.2	the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees.	Comply
3.3	Provide the information indicated in *Guide to reporting on Principle 3.*	Refer attached
	Principle 4: Safeguard integrity in financial reporting	
4.1	Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.	Comply
4.2	The board should establish an audit committee.	Refer attached
4.3	Structure the audit committee so that it consists of: > only non-executive directors > a majority of independent directors > an independent chairperson, who is not chairperson of the board > at least three members.	Refer attached
4.4	The audit committee should have a formal Charter.	Refer attached
4.5	Provide the information indicated in *Guide to reporting on Principle 4.*	Refer attached
	Principle 5: Make timely and balanced disclosure	
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	Comply
5.2	Provide the information indicated in *Guide to reporting on Principle 5.*	Refer attached
	Principle 6: Respect the rights of shareholders	
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Comply
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditors' report.	Comply
	Principle 7: Recognise and manage risk	
7.1	The board or appropriate Board Committee should establish policies on risk oversight and management.	Comply

corporate governance statement (continued)

ASX Corporate Governance Council's Best Practice Recommendations.		Zylotech's Compliance
7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:	
7.2.1	the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.	Comply
7.2.2	the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	Comply
7.3	Provide the information indicated in *Guide to reporting on Principle 7.*	Refer attached
Principle 8: Encourage enhanced performance		
8.1	Disclose the process for performance evaluation of the board; its committees and individual directors, and key executives.	Comply
Principle 9: Remunerate fairly and responsibly		
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	Comply
9.2	The board should establish a remuneration committee.	Comply
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	Comply
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	Comply
9.5	Provide the information indicated in *Guide to reporting on Principle 9.*	Refer attached
Principle 10:Recognise the legitimate interests of stakeholders		
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	Comply

PRINCIPLE 1:

Lay solid foundations for management and oversight

(A) BOARD OF DIRECTORS

The Board of Directors oversees the business and affairs of the Economic Entity, establishes the strategies and financial objectives to be implemented by management and monitors standards of performance. The Economic Entity's framework is designed to provide strategic guidance for the Economic Entity and effective oversight management; provides for a clear understanding of the respective roles of the Board members and senior executives in order to facilitate Board and Management accountability to the Company and its shareholders and ensures a balance of authority so that no single individual has unfettered powers.

The Board has established a framework for the management of the Economic Entity including internal controls, a business risk management process and the establishment of appropriate ethical standards.

The names of the directors of the Company in office at the date of this Statement, together with details of their experience and qualifications, are set out in the Directors' Report of these financial statements.

The Board currently consists of three directors of whom two, including the Chairman, do not carry out an executive role, thus ensuring independence and objectivity.

After consultation with the Chairman, each director has the right to seek independent professional advice at the Company's expense.

The Constitution of the Company specifies the number of directors shall be not less than three nor more than ten. The Board may at any time appoint a director to fill a casual vacancy and at each annual general meeting, one-third of directors together with any director appointed since the last annual general meeting retire from office and may stand for re-election.

The composition of the Board is reviewed regularly to ensure that the range of expertise and experience of Board members is appropriate for the activities and operations of the Economic Entity. Where, through whatever cause, it is considered that the Board would benefit from the services of a new director with particular skills, the Board would then appoint the most suitable candidate who must stand for re-election at a general meeting of shareholders.

The Constitution specifies that the aggregate remuneration of directors, other than salaries paid to executive directors, shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is divided between those directors as they agree. The latest determination was at the Annual General Meeting held on 22 April 1997 when shareholders approved an aggregate remuneration of $100,000 per year.

The Board has the power and overall responsibility for the strategic direction and the setting of the financial objectives of the Economic Entity; sole approval of the issue of any securities in the Company or of the organisational structure of the Company; approval of business plans, budgets; monitoring and assessing management's performance against approved strategic plans and budgets on a regular basis; determining the remuneration and conditions of service for the executive Directors and senior executives; appointing and reviewing the performance of the chief executive; overseeing and confirming the appointment of senior executives.

The Chairman is responsible for providing leadership of the Board in the discharge of its duties, facilitating effective discussion at Board meetings, ensuring procedures are in place, monitoring performance against approved benchmarks and communicating with shareholders as required.

The Managing Director is responsible for the management and day-to-day activities of the Economic Entity and keeping the Board informed of any material matters, which may affect the operations on a timely basis. The Managing Director may make recommendations to the Board on major strategic issues though ultimate approval vests with the Board.

The Economic Entity is small in terms of the size of its operations; management and staffing levels and indeed in the number of Board members. The Company recognises the need to review these responsibilities from time to time as the Economic Entity expands its operations.

PRINCIPLE 2:

STRUCTURE THE BOARD TO ADD VALUE

The Company has three Directors at the date of this report made up of two non-executive and one executive director. The Chairman is a non-executive director however, during the period 5th September to 26th September 2006, Mr. Nicholas Sikiotis the Managing Director acted as Chairman for the meeting appointing new Directors following the passing away of the prior Managing Director and the resignation of the then remaining Board. The Company has during the year had four Board members except during the period of 19th August to the 5th September 2006 when it had three directors. The four members were made up of two non-executive and two executive members. The Company does agree with the ideal best practice of having a majority of non-executive members though with the Economic Entity operating in a very high-tech environment, maintaining a strong technical executive membership is critical in the Board's understanding of the product complexities and market in which the Economic Entity operates. The Chairman is non-executive and this assists in providing a required balance until such time as it appoints an additional non-executive member.

The Board of Directors has adopted a formal Board of Directors Charter.

A director of the Company is regarded as being independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement. In assessing the independence of each Director the following criteria has been adopted by the Company:

- is a non-executive
- is not a substantial shareholder within the meaning of the Corporations Act
- has not within the last three years been employed in an executive capacity by the Economic Entity
- has not been a principal of a material professional adviser or a material consultant to the Economic Entity or an employee materially associated with the service provider
- is not a material supplier or material customer of the Economic Entity, or an officer of or otherwise associated with a material supplier or customer
- has no material contractual relationship with the Economic Entity other than as a director
- has not served on the Board for a period which could, or could reasonably be perceived to materially interfere with the directors' ability to act in the best interests of the Economic Entity
- is free from any interest and any business or other relationship, which could reasonably be perceived to materially interfere with the directors' ability to act in the best interests of the Economic Entity.
- no immediate family member of the director is an executive officer of the Economic Entity within the previous five years

The Directors of the Company who can be identified as satisfying the independence criteria are Mr. Sydney Borg, Vice Admiral Don Chalmers, Mr. John Wayland and Dr. Andrew Unterweger. Mr. Borg and Dr. Unterweger have also acted as Chairman of the Company during the year.

Dr. Unterweger has advised the Board of his interest as Chairman of the Economic Entity and Executive Chairman and shareholder of Quiktrak Networks Limited, the later company having made a formal offer to acquire the business assets of the Parent company Zylotech Ltd (refer ASX announcement 15th January 2007 and subsequent events notes contained on pages 5 and 38 of this report.)

The Board may at any time appoint a director to fill a casual vacancy and at each annual general meeting, one-third of directors together with any director appointed since the last annual general meeting retire from office and may stand for re-election. The term, skills, experience and expertise held by each Director in office at the date of this annual report may be found in the Directors' Report.

In accordance with the Corporations Act 2001 and the Company's constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Details of director related entity transactions with the Company and Economic Entity are set out in note 18.

The Company does not have a separate formally constituted nominations committee for the nomination of directors. The Remuneration Committee has been assigned the duties and responsibilities of a Nominations Committee as part of its formal Charter. The Board considers the Company and the Board itself, is not yet of sufficient size to warrant a separate nominations committee. The full Board performs the duties of this nominations committee in line with the recommendation 2.4 of the ASX Best Practice Recommendations.

The composition of the Board is reviewed regularly to ensure that the range of expertise and experience of Board members is appropriate for the activities and operations of the Economic Entity. Where, through whatever cause, it is considered that the Board would benefit from the services of a new director with particular skills, the Board would then appoint the most suitable candidate who must stand for re-election at a general meeting of shareholders.

PRINCIPLE 3

PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

The Economic Entity recognises the importance of ethical and responsible decision-making and the Board has adopted a formal code of ethical business standards for the Economic Entity. The Board has and does require of itself and its employees the highest ethical standards when carrying out their duties and when acting on behalf of the Economic Entity.

In particular:

DIRECTORS' CODE OF CONDUCT

- That each director must act honestly and with integrity in all commercial dealing and must uphold high moral and ethical standards in the conduct of business
- Directors must separate their personal dealings from their dealings as a Director of the Economic Entity and not use any information obtained in the course of their directional duties for personal financial gains or for the benefit of any other person or business
- Confidential information received by the Director in the course of their duties must not be disclosed to third parties without the authorisation of the Economic Entity, the person from whom the information is provided or where disclosure is required by law
- A director has an obligation to promptly disclose private or business interest or any other matters, which may lead to a potential or actual conflict of interest or which may impair their independence
- Each Director is required and has an obligation to comply with the law at all times
- Each Director must only use resources or assets of the Economic Entity in accordance with agreed terms of use. Further, Directors must refrain from using their official capacity to gain undue advantage in personal transactions or accept personal gain of any material significance.

These principles are actively promoted within the Economic Entity and its key executives and all are encouraged to observe these standards. The Economic Entity has established a Directors Charter and a Code of Conduct which can be viewed on the company's web site.

SECURITIES TRADING

The Economic Entity acknowledges that during the course of discharging their duties, both Directors and employees of the Economic Entity may become aware of Inside Information relating to the Economic Entity. The Economic Entity has established a formal Share Trading Policy which can be viewed on the company's web site.

The Economic Entity has a policy in place whereby employees and directors are not permitted to buy or sell shares where there exists and they are aware of price sensitive information until such information has been made publicly available. Directors are required to advise the company secretary of all transactions undertaken by them directly or indirectly and this legal and ethical requirement has been formalised by the Board. Regular memorandums are circulated to all employees reinforcing this policy and Directors are formally reminded of their responsibilities and obligations under both the Corporations Act 2001 and ASX Listing requirements.

The Economic Entity, in dealing with price sensitive information, ensures all formal confidentiality agreements entered into in the course of its operations, contain a clause that makes reference to the insider trading provisions of the Corporations Act and the ASX Listing Rules. The Economic Entity encourages its Directors and employees to hold shares in the Company though requires its Directors and Employees to notify the Company Secretary of any such transactions.

The Company Secretary has standing instructions to be provided a daily trading report of the Company's securities by the Company's share registry to ensure that all trading by Directors is reported in accordance with ASX Listing Rules and the Corporations Act.

PRINCIPLE 4

SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Economic Entity recognises that processes must be in place to ensure the integrity of the financial statements of the Economic Entity and the independence of the external auditor.

AUDIT COMMITTEE

The Company does not have a formally constituted audit committee of the Directors as the Board considers that the Company is not yet of sufficient size to warrant such a committee. The full Board performs the duties of this committee.

The Board of the Economic Entity does however require the Managing Director and the Chief Financial Officer to state in writing to the Board that the Economic Entity's financial reports present a true and fair view, in all material aspects, of the Economic Entity's financial condition and operational results and are prepared in accordance with relevant accounting standards.

The Board is presented with formal monthly reports comparing actual results with approved budgets and a report on the monthly activities and both current and future developments by both the Managing Director and the Chief Financial Officer. The Board is encouraged to seek explanations on any aspects they may require further elaboration.

The Economic Entity, notwithstanding the low staffing levels employed in performing the day to day financial functions have systems of internal controls in place to ensure the financial integrity of the information. The external auditors review these aspects in their routine compliance testing.

The Board acknowledges that it is responsible for the overall internal control framework but recognizes that no cost effective internal control system will preclude all errors and irregularities. The system is based upon policies and guidelines and the careful selection and training of qualified personnel.

The Economic Entity does however agree with the principle of the establishment of an audit committee and plans to establish such a committee as the Economic Entity expands its operations and activities.

External Auditors

The Board monitors the performance of the external auditors and requires annual confirmation of auditor independence.

The current external auditors were appointed in May 2003. The lead engagement partner has not been rotated.

The Board reviews the performance of the external auditors on an annual basis and members of the Board normally meets with them during the year as follows:

- to discuss the outcome of the annual audit and half-year review
- to review and discuss the impact of any proposed changes in accounting policies on the financial statements
- to discuss any significant issues that may be foreseen
- to review the nature and impact of any changes in accounting policies adopted by the Economic Entity during the year
- The external auditor is provided with the opportunity, at their request, to meet with the Board of Directors without management being present.

PRINCIPLE 5

MAKE TIMELY AND BALANCED DISCLOSURE

The Directors are aware of the importance of timely and balanced disclosure of all material matters concerning the Economic Entity. It is the policy of the directors to provide shareholders and the public as soon as practicable with financial information and commentary on results sufficient to enable an investor to make informed assessments of the Economic Entity's activities.

The Economic Entity has a procedure in place (Continuous Disclosure and Shareholder Communication Policies which can be viewed on the Company web site) to ensure that comprehensive and accurate market relevant information and in particular price sensitive information, is released in a timely and controlled manner. The Managing Director is responsible for communicating any price sensitive information to the Board and the Board approved announcements together with any standard reporting obligations required under either the ASX listing requirements and/or those required under the Corporations Act, are assigned to a Disclosure Committee. The Managing Director, Company Secretary, or Chief Financial Officer then make the formal communication to the ASX. Copies of the ASX announcements are posted on the Economic Entity's web site.

The Disclosure Committee is responsible for making key decisions regarding disclosure of information to the market under Listing Rule 3.1. Both the Managing Director and Company Secretary attend Board meetings where issues which may fall under the disclosure requirements are raised and the Board delegates the reporting to these officers when announcement is required.

Other routine requirements ordinarily assigned to a Company Secretary such as Directors' share trading reporting or in the lodgement of approved financial reports, Board approved appointments or quarterly cash flow reports, are generally processed by the Economic Entity's Company Secretary.

All senior executives of the Economic Entity who in their everyday activities are likely to become aware of material or price sensitive information are made aware of the requirement to communicate to either the Managing Director or the Company Secretary, the existence of any material and or any likely price sensitive development information they are aware of. These senior executives are instructed on the need for the information to remain confidential until such time as the information determined by the Disclosure Committee and the Board if required, determines if disclosure is required.

All employees of the Economic Entity have been instructed that all shareholder, media and other inquiries relating to the Economic Entity's affairs are to be directed to either the Managing Director or the Company Secretary and not discuss any matters regarding the affairs of the Entity other than general day to day operational enquiries.

PRINCIPLE 6

RESPECT THE RIGHTS OF SHAREHOLDERS

The Board of Directors aims to ensure the shareholders are informed of all major developments affecting the Economic Entity's state of affairs. Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders. The Board ensures that the annual report includes relevant information about the operations of the Economic Entity during the year, changes in the state of affairs of the Economic Entity and details of future developments, in addition to the other disclosures required by the Corporations Act 2001.
- The half-yearly report contains summarised financial information and a review of the operations of the Economic Entity during the period. Half-year financial statements prepared in accordance with the requirements of Accounting Standards and the Corporations Act 2001 are lodged with the Australian Securities and Investments Commission and the Australian Stock Exchange Ltd. The half-year financial statements are sent to any shareholder who requests them.
- The Economic Entity provides each quarter a cash flow statement as part of the Economic Entity's ASX Listing Requirements.
- The Economic Entity posts all announcements to its web site and retains past Annual and half yearly reports, past announcements over several years as well as the registered office particulars, its major customers and an extensive details on its entire product range.
- The Economic Entity has video conferencing capability and this medium is available for communication with shareholders, analysts or media if reasonable notice is given, the Economic Entity's videoconferencing number is listed on its web site.
- The Economic Entity posts copies of all current communication documents with shareholders such as current prospectuses, notices of meetings, proxy forms etc onto its web site.
- The Company Secretary and the Managing Director are available to field calls from any shareholder and to assist in either providing hard copy information or verbal advice to questions where it is possible, given the requirements of ASX Listing Rules in respect of market sensitive information.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Economic Entity's strategy and goals.

PRINCIPLE 7

RECOGNISE AND MANAGE RISK - ESTABLISH A SOUND SYSTEM OF RISK OVERSIGHT AND INTERNAL CONTROL

The Board, with assistance from the Managing Director and Company Secretary and CFO, is responsible for ensuring that the Economic Entity's risk management procedures are effective. The Economic Entity has not formed an audit committee nor a risk management committee of Directors as the Board considers that the Company is not yet of sufficient size to warrant such committees. The full Board performs the duties of these committees.

The Board of the Economic Entity does however require the Managing Director and the Chief Financial Officer to state in writing to the Board on a bi-annual basis that their statement regarding the financial integrity of the Economic Entity's financial statements is founded on a sound system of risk management and internal compliance and control and that the risk management and internal compliance and internal control system is operating efficiently and effectively in all material respects.

There are also regular meetings by the Board with a full report of operational and financial matters from the Managing Director and the Company Secretary and the CFO.

The Economic Entity has identified key elements of potential risk as follows:

- Marketing
- Legal
- Operational
- Quality assurance
- Financial
- Occupational health and safety

The Economic Entity manages significant business through the following internal procedures and controls.

FINANCIAL RISK

- Internal control compliance checks conducted by the external auditors as part of the financial audit program.
- Adherence to the signing authorities assigned for various aspects covering payments and documents which bind the Economic Entity in contractual arrangements with external parties. Due to the flat executive structure, payment and contractual authority vests with the Managing Director and CFO, co-jointly in respect of all payments.
- Segregation of conflicting duties wherever practical given the limited staff resources employed.
- Statement on the integrity signed by both the Managing Director and CFO presented to the Board.
- Full reports presented to the Board meetings by both the Managing Director and CFO.

INSURANCE

A comprehensive insurance program covering major risk areas associated with a technology company operating within the surveillance market. Maintaining workers compensation, public and product liability policies. The Economic Entity is in the process of entering into a Directors and Officers insurance policy (refer to Directors' Report). The Economic Entity negotiates ex works shipment terms in the majority of major supply contracts

QUALITY ASSURANCE

- ensuring that all electrical products the Economic Entity markets are CE approved as well as those of the individual components
- sourcing from reputable suppliers
- training of employees
- clearly defined operating instructions
- maintaining a product liability insurance policy
- ensuring all goods purchased have adequate warranty

OCCUPATIONAL HEALTH AND SAFETY

- an active Occupational Health and Safety (OH&S) Committee
- regular meetings of the OH&S committee
- circularise minutes of the OH&S meetings to staff and management
- conduct routine site inspections by management, fire prevention consultants and insurance assessors
- regular fire drills and training for wardens and sending employees on first aid courses

The Board is presented with formal monthly reports comparing actual results with approved budgets and a report on the monthly activities and both current and future developments by both the Managing Director and the Chief Financial Officer. The Board is encouraged to seek explanations on any aspects they may require further elaboration.

The Economic Entity, notwithstanding the low staffing levels employed in performing the day to day financial functions have systems of internal controls in place to ensure the financial integrity of the information. The external auditors review these aspects in their routine compliance testing.

PRINCIPLE 8

ENCOURAGE ENHANCED PERFORMANCE

Fairly review and actively encourage enhanced Board and management effectiveness.

The Board reviews its performance on an annual basis and this performance evaluation will include an assessment of its performance with the requirements as per Principles I and 2 outlined earlier in this statement; setting goals and objectives of the Board for the upcoming year in conjunction with the approval of strategic plans, budgets in conjunction with the senior executives of the Economic Entity; reviewing the skill sets of the Board itself and determining the need for additional members or a change in membership and, effecting any improvements to the over-riding elements as outlined under Principles 1 and 2.

The Board reviews the performance of key executives on a regular basis through the attendance of both the Managing Director and the CFO at Board meetings and each executive providing to the Board a report on the operations and monthly financial reports at least 2 days prior to each meeting date with comparison and explanations of to the Board approved budgets and strategies. The Directors are encouraged to seek further explanations as to any aspect of the reports as and when considered necessary by them. The Directors also have access to the Company Secretary, and the appointment or removal of the Company Secretary is a matter for decision of the Board as a whole.

The current non-executive and executive members of the Board have had experience as Board members and are well versed on the formal requirements of directorships (refer to Directors' biographies in the Directors' Report). In addition, the executive members provide the expert knowledge of the operation of the Economic Entity, particularly the technical aspects in the markets in which the Economic Entity operates.

Each new Director appointed to the Board will be provided with an induction session to gain an understanding of the Economic Entity's financial, strategic, operational and risk management position; an outline of their rights, duties and responsibilities (ongoing reinforcement through Board discussions) and the role of committees where applicable.

After consultation with the Chairman, each director has the right to seek independent professional advice at the Company's expense.

PRINCIPLE 9

REMUNERATE FAIRLY AND RESPONSIBLY

A framework for disclosing to shareholders

REMUNERATION POLICY

The Board has established a Remuneration Committee and adopted a Charter for that Committee.

The essential elements of the Remuneration Committee's charter is to:

- Develop and facilitate a process for Board and Director evaluation;
- Assess the availability of Board candidates including nominations put to the Committee by other non-Committee Board members or others, obtain approval of the Board to proceed and then, in conjunction with the Chairman of the Board, to undertake the necessary due diligence and negotiation;
- Make specific recommendations to the Board on remuneration and incentive plans for Directors (subject to previously approved limits as approved by shareholders) and senior management;
- Advise the Board on the recruitment, retention and termination policies for senior management; and
- Undertake a review of the Managing Director's performance, at least annually, including recommending to the Board the Managing Director goals for the coming year and reviewing progress in achieving these goals.

It is board policy to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities though taking into account the financial position of the Economic Entity. The Constitution of the Company specifies that the aggregate remuneration of Directors, other than salaries paid to executive directors, shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is divided between those directors as they agree. The latest determination was at the Annual General Meeting held on the 22 April 1997 when shareholders approved an aggregate remuneration of $100,000 per year. Executive Directors do not receive director fees nor participate in any bonus scheme. The Board as a whole determines the amount of the fee paid to each non-executive director.

All Directors are entitled and encouraged to take up any entitlements they may have under rights issues made by the Company from time to time.

All Directors may be allocated options to acquire shares in the Company under Participants Options Schemes approved by shareholders from time to time though the last such scheme approved by shareholders at the Annual General Meeting of shareholders held on the 22 May 2002 expired during the year ended December 2005.

The overall objective of the Economic Entity is to ensure that remuneration policies and practises are designed to attract and retain key employees who will most effectively contribute towards achieving positive outcomes for the Economic Entity subject to the financial condition of the Economic Entity.

The Managing Director provides his services under a contractor arrangement previously entered into between the parent company and the company Holiward Pty Ltd. This arrangement was initially entered into when the latter company provided the services of Mr. Sikiotis as Technical Director of the parent company. The original arrangement (now expired though the principles of which continue to be applied) have been extended to include the services of Mr. Sikiotis as the Managing Director and the Technical Director of the Economic Entity. The fees paid to Holiward Pty Ltd under this arrangement are made up of fees for the managing director and technical director role, travel allowance, vehicle expenses, general communications expenses and FBT where applicable. The Economic Entity has reviewed the fee in line with the remuneration applicable to the previous Managing Director. The Economic Entity has achieved a net overall cost saving by appointing Mr. Sikiotis to act as the Managing Director as in conjunction to his previous services as Technical Director in effect saving the cost of one senior remuneration package.

Senior executive remuneration packages are determined and submitted by the Managing Director to the Remuneration Committee for approval and submission to the Board for ultimate approval, based on performance criteria and the Economic Entity's financial performance. Other employee remuneration packages are determined and approved by the Managing Director based on salary market rate indicators, press advertisements, performance criteria and again the Economic Entity's financial state of affairs.

Details of Director and senior executive remuneration payments can be found in Note 17 and the Directors' Report.

PRINCIPLE 10

RECOGNISE THE LEGITIMATE INTEREST OF STAKEHOLDERS

Recognise legal and other obligations to all legitimate stakeholders

The Economic Entity is mindful of its responsibilities to employees, customers and the community as well as its responsibilities to shareholders. Fairness, honesty and ethical conduct are core values of the Economic Entity and these values are encouraged in employees through management monitoring, employee inductions and a formal code of conduct which is made available to each new employee or Board member.

income statement

for the year ended 31 December 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Revenue	2	720,331	2,094,191	645,089	2,013,680
Cost of goods sold		(204,101)	(1,041,600)	(204,101)	(1,041,600)
Distribution expenses		(11,012)	(14,509)	(9,764)	(14,509)
Sales and marketing expenses		(390,283)	(420,294)	(386,456)	(419,126)
Technical development and services		(1,067,353)	(760,540)	(380,721)	(277,282)
Occupancy expenses		(137,053)	(170,182)	(79,726)	(95,785)
Depreciation		(17,699)	(53,744)	(5,955)	(12,048)
Goodwill impairment		(463,163)	–	–	–
Administrative expenses	3	(723,723)	(673,074)	(1,095,786)	(1,170,254)
Loss before related income tax expense		(2,294,056)	(1,039,752)	(1,517,420)	(1,016,924)
Income tax benefit	5	166,530	260,405	–	–
Net loss after income tax		(2,127,526)	(779,347)	(1,517,420)	(1,016,924)
Basic (loss) per share in cents	19	(2.39)	(1.36)		
Diluted (loss) per share in cents	19	(2.39)	(1.36)		

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 22 to 39.

balance sheet
as at 31 December 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT ASSETS					
Cash and cash equivalents	22(i)	862,909	1,999,671	790,513	1,908,191
Trade and other receivables	6	268,601	562,897	93,879	301,963
Inventory	7	591,953	476,524	591,953	476,524
Other	11	4,316	15,146	2,158	12,261
TOTAL CURRENT ASSETS		1,727,779	3,054,238	1,478,503	2,698,939
NON-CURRENT ASSETS					
Other financial assets	8	–	–	423,622	550,123
Plant & equipment	9	17,666	30,729	13,365	16,263
Intangible assets	10	–	463,163	–	–
TOTAL NON-CURRENT ASSETS		17,666	493,892	436,987	566,386
TOTAL ASSETS		1,745,445	3,548,130	1,915,490	3,265,325
CURRENT LIABILITIES					
Trade and other payables	12	313,687	289,490	221,850	345,565
Provisions	13	72,583	98,500	56,443	76,312
TOTAL CURRENT LIABILITIES		386,270	387,990	278,293	421,877
NON-CURRENT LIABILITIES					
Trade and other payables	12	15,515	–	–	–
Provisions	13	51,850	69,430	48,996	66,453
TOTAL NON-CURRENT LIABILITIES		67,365	69,430	48,996	66,453
TOTAL LIABILITIES		453,635	457,420	327,289	488,330
NET ASSETS		1,291,810	3,090,710	1,588,201	2,776,995
EQUITY					
Issued capital	14	9,789,429	9,460,803	9,789,429	9,460,803
Accumulated losses		(8,497,619)	(6,370,093)	(8,201,228)	(6,683,808)
TOTAL EQUITY		1,291,810	3,090,710	1,588,201	2,776,995

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 22 to 39.

statement of changes in equity

for the year ended 31 December 2006

	Issued Capital $	Accumulated Losses $	Total $
Economic entity			
At 1 January 2006	9,460,803	(6,370,093)	3,090,710
Loss for period	–	(2,127,526)	(2,127,526)
Issue of share capital	328,626	–	328,626
At 31 December 2006	9,789,429	(8,497,619)	1,291,810
At 1 January 2005	7,743,996	(5,590,746)	2,153,250
Loss for period	–	(779,347)	(779,347)
Issue of share capital	1,716,783	–	1,716,783
Exercise of options	24	–	24
At 31 December 2005	9,460,803	(6,370,093)	3,090,710
Parent entity			
At 1 January 2006	9,460,803	(6,683,808)	2,776,995
Loss for period	–	(1,517,420)	(1,517,420)
Issue of share capital	328,626	–	328,626
At 31 December 2006	9,789,429	(8,201,228)	1,588,201
At 1 January 2005	7,743,996	(5,666,884)	2,077,112
Loss for period	–	(1,016,924)	(1,016,924)
Issue of share capital	1,716,783	–	1,716,783
Exercise of options	24	–	24
At 31 December 2005	9,460,803	(6,683,808)	2,776,995

The statement of changes in equity should be read in conjunction with the notes to the financial statements set out on pages 22 to 39.

cash flow statement

for the year ended 31 December 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		981,097	2,096,559	1,113,112	1,945,582
Payments to suppliers and employees		(2,965,102)	(3,562,396)	(2,275,401)	(2,550,905)
Interest received		89,317	38,626	76,787	35,610
Grant income received		175,474	319,352	-	-
Section 73Q R&D tax offset		260,405	-	-	-
Net cash (used in) operating activities	22(ii)	(1,458,809)	(1,107,859)	(1,085,502)	(569,713)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for plant and equipment		(6,579)	(9,681)	(5,000)	(6,394)
Proceeds from sale of plant and equipment		-	-	-	-
Net cash provided by/(used in) investing activities		(6,579)	(9,681)	(5,000)	(6,394)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net proceeds from issue of shares net of associated costs		328,626	1,716,807	328,626	1,716,807
Loan to subsidiary		-	-	(355,802)	(544,798)
Net cash provided by/ (used in) financing activities		328,626	1,716,807	(27,176)	1,172,009
Net increase/ (decrease) in cash		(1,136,762)	599,267	(1,117,678)	595,902
Cash at the beginning of the financial year		1,999,671	1,400,404	1,908,191	1,312,289
Cash at the end of the financial year	22(i)	862,909	1,999,671	790,513	1,908,191

The cash flow statement is to be read in conjunction with the notes to the financial statements set out on pages 22 to 39.

notes to the financial statements

for the year ended 31 December 2006

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

(A) BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with requirements of Australian Accounting Standards and the Corporations Act 2001.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where specifically stated, current valuation of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars.

The accounting policies have been consistently applied by each entity in the Economic Entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

The financial statements were authorised for issue by the directors on 23rd February 2007.

Zylotech Limited is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange.

(B) STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

(C) GOING CONCERN

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The directors believe that it is appropriate to prepare the financial report on a going concern basis 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 commercialisation of its products.
- The Directors believe that the Company will be able to raise additional funds through capital raisings when required.

The directors are of the opinion that the proposed equity raising measures and the anticipated growth in the business and the existing cash resources will provide sufficient funds to enable the Economic Entity to continue its operations for at least the next 12 months, including the commercialisation and marketing of products under development.

If the anticipated increase in revenue is not achieved, further capital raising will be required in order for the Economic Entity to continue as a going concern.

(D) BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Zylotech Limited and its subsidiaries ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

(E) INVESTMENTS

Investments are valued at the lower of cost or recoverable amount.

(F) TRADE DEBTORS

Trade debtors to be settled within 60 days are carried at amounts due. The collectability of debts is assessed at balance date and a specific provision is made for any doubtful accounts.

(G) INVENTORIES

Inventories are carried at the lower of cost or net realisable value. Cost is based on a first-in-first-out basis and includes expenditure incurred in acquiring the inventory and bringing them to their existing condition and location.

Net realisable value is determined on the basis of the Economic Entity's normal selling pattern after consideration of selling and other distribution expenses.

(H) IMPAIRMENT OF ASSETS

At each reporting date, the Economic Entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Economic Entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(I) PLANT AND EQUIPMENT

Items of plant and equipment are recorded at cost on acquisition less accumulated depreciation and any impairment in value.

Leased plant and equipment

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(J) DEPRECIATION

Fixed assets are recorded at cost and depreciated using the straight line method over their useful economic lives. The following depreciation rates are used:

Office furniture and equipment	*6-33%*

(K) GOODWILL

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. An impairment of goodwill is not subsequently reversed.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(L) FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

(M) FOREIGN EXCHANGE RISK

The Economic Entity is exposed to foreign exchange risks from the acquisition of inventories. The Economic Entity's policy is not to hedge these risks.

(N) INCOME TAX

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the tax rates and laws that have been enacted or substantially enacted by reporting date, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Zylotech Limited, as head entity, and its wholly owned controlled entities incorporated in Australia have not elected to consolidate under the Tax Consolidation System.

Research and development expenditure tax offsets receivable under Section 73Q of the Income Tax Assessment Act are recognised upon lodgement of the income tax return, when the Company has made the required election.

(O) EMPLOYEE BENEFITS

Salaries and annual leave

Liabilities for salaries and annual leave expected to be settled within 12 months of reporting date are recognised in other payables measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

Provisions for employee benefits that are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the provision for employee benefits, consideration has been given to future increases in wage and salary rates, and the Economic Entity's experience with staff departures. Related on-costs have also been included in the liability.

(P) SHARE-BASED PAYMENT TRANSACTIONS

The economic entity provides benefits to employees (including directors) of the economic entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Zylotech Ltd ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the economic entity, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(Q) WARRANTY CLAIMS

Provision is made for the Economic Entity's estimated liabilities on all products still under warranty and includes claims already received. The estimate is based on the Economic Entity's costs experience over previous years.

(R) ACCOUNTS PAYABLE

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Economic Entity. Trade accounts payable are normally settled within 30 days.

(S) CASH

For the purposes of the statement of cash flows, cash includes cash on hand and at bank, short term deposits with financial institutions maturing within less than three months and net of outstanding bank overdrafts.

(T) RESEARCH AND DEVELOPMENT COSTS

All research and development costs are expensed as incurred.

(U) REVENUE RECOGNITION

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products to entities outside the Economic Entity. Sales revenue is recognised when control of the goods passes to the customer. Revenues received in advance are deferred in the Balance Sheet until control passes.

Interest income is recognised as it accrues.

Research and development grant receipts are recognised as revenue where they relate to research and development costs that have been expensed. Where the grant receipt relates to research and development costs that have been deferred, the grant is deducted from the carrying amount of the deferred research and development costs.

(V) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(W) COMPARATIVE FIGURES

Where required by accounting standards, comparative figures have been adjusted to conform with changes in presentation in the current financial year.

notes to the financial statements
for the year ended 31 December 2006

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
2 REVENUE				
Sale of goods revenue	427,569	1,759,462	427,569	1,746,180
Other revenues:				
From operating activities				
Interest received and receivable from other Corporations	94,154	42,628	75,107	39,612
Grant income	181,951	285,952	–	–
Other revenue	16,657	6,149	1,729	5,502
From outside operating activities				
Other revenue	–	–	140,684	222,386
	292,762	334,729	217,520	267,500
Total revenue	720,331	2,094,191	645,089	2,013,680
3 LOSS BEFORE INCOME TAX				
(a) Individually significant items included in administration expenses include:				
• non-recoverable loan to controlled entity	–	–	355,802	544,798
• wages and salaries	258,850	284,335	258,850	284,335
• accounting and audit fees	30,500	31,580	19,125	22,112
• management fees	–	27,000	–	27,000
• listing fees	18,033	28,698	18,033	28,698
• insurance	28,927	37,097	19,569	23,753
• legal expenses	40,217	9,171	37,901	7,438
• superannuation	32,140	26,921	32,140	26,921
• share registry	23,614	24,138	23,614	24,138
• fringe benefits tax	19,939	12,998	19,939	12,998
• inventory writedown	55,727	–	55,727	–

notes to the financial statements

for the year ended 31 December 2006

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
3 LOSS BEFORE INCOME TAX (CONTINUED)				
(b) Loss before income tax has been arrived at after charging/(crediting) the following items:				
Depreciation of plant and equipment	17,699	53,744	5,955	12,048
Impairment write down of goodwill	463,163	–	–	–
Amortisation of deferred expenditure	–	27,371	–	27,371
Amounts set aside to/(withdrawn from) provision for:				
• employee benefits	151,442	25,301	119,242	16,732
• non-recoverable loan to controlled entity	–	–	355,802	544,798
Net bad and doubtful debts expense including movements in provision for doubtful debts	(10,000)	689	(10,000)	689
Operating lease rentals	149,597	178,880	92,269	108,212
Research & development costs	148,174	96,797	29,570	20,748
Net foreign exchange loss (gain)	(1,050)	774	(1,050)	774
4 AUDITORS' REMUNERATION				
Amounts received or due and receivable by Borough Mazars for:				
• Audit or review of the financial report of the Company and controlled entities	24,000	21,500	15,875	15,775
Other services				
• tax compliance	2,800	5,500	–	2,500
• assurance related	3,700	4,580	3,250	3,837
	30,500	31,580	19,125	22,112

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
5 TAXATION				
(a) INCOME TAX EXPENSE (BENEFIT)				
Prima facie income tax (benefit) calculated at 30% (2005:30%) on the operating (loss)	(688,216)	(311,926)	(455,226)	(305,077)
Increase/(decrease) in income tax expense due to non-assessable and non-deductible items:				
Goodwill impairment	138,949	–	–	–
Amortisation of deferred expenditure	–	8,211	–	8,211
Non-deductible expenses	1,697	20,582	1,779	184,021
Benefit of current year tax losses not recognised	547,570	283,133	453,447	112,845
R&D tax offset	(166,530)	(260,405)	–	–
Total income tax expense/(benefit)	(166,530)	(260,405)	–	–

During the year the Economic Entity applied for an R&D expenditure tax offset under Section 73Q of the Income Tax Assessment Act.

(b) DEFERRED TAX ASSET NOT TAKEN TO ACCOUNT

The potential deferred tax asset arising from tax losses and deductible temporary differences based on lodged and unlodged returns has not been recognised as an asset because it is not considered probable that future taxable profit will be available against which the unused tax losses and deductible temporary differences can be utilised.

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out below occur				
Timing differences:	116,923	58,437	90,289	48,829
Tax losses				
Operating losses	4,500,841	4,100,051	2,847,704	2,429,516
Capital losses	382,285	382,825	344,543	344,543

The potential deferred tax assets will only be obtained if:

(i) the Company and/or Economic Entity derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;

(ii) the Company and/or the Economic Entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant Company and/or the Economic Entity in realising the benefit from deductions for the losses.

(c) FRANKING CREDITS

The Economic Entity has no franking credits available.

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
6 TRADE & OTHER RECEIVABLES				
CURRENT				
Trade receivables	69,137	306,873	69,137	306,873
Less: Provision for doubtful debts	–	(10,000)	–	(10,000)
	69,137	296,873	69,137	296,873
Other receivables	199,464	266,024	24,742	5,090
	268,601	562,897	93,879	301,963
NON-CURRENT				
Loan to controlled entities	–	–	2,471,682	2,078,180
Less: Provision for non-recovery	–	–	(2,471,682)	(2,078,180)
	–	–	–	–
7 INVENTORY				
Finished goods – at cost	410,120	283,798	410,120	283,798
Finished goods – at net realisable value	181,833	192,726	181,833	192,726
	591,953	476,524	591,953	476,524
8 OTHER FINANCIAL ASSETS				
Shares not quoted on a prescribed Stock Exchange – at cost	81,855	81,855	81,855	81,855
Less: Provision for diminution in value	(81,855)	(81,855)	(81,855)	(81,855)
	–	–	–	–
Shares in controlled entities not quoted on a prescribed Stock Exchange – at cost	–	–	853,156	1,095,940
Less: Provision for diminution in value	–	–	(429,534)	(545,817)
	–	–	423,622	550,123
	–	–	423,622	550,123
9 PLANT AND EQUIPMENT				
Office furniture & equipment – at cost	343,371	401,601	20,744	56,913
Less: Accumulated depreciation	(325,705)	(370,872)	(7,379)	(40,650)
	17,666	30,729	13,365	16,263
Reconciliations				
Office furniture & equipment				
Carrying amount at beginning of year	30,729	74,792	16,263	21,917
Additions – at cost	6,579	9,681	5,000	6,394
Disposals	(1,943)	–	(1,943)	–
Depreciation	(17,699)	(53,744)	(5,955)	(12,048)
Carrying amount at end of year	17,666	30,729	13,365	16,263

notes to the financial statements

for the year ended 31 December 2006

		Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
10 INTANGIBLE ASSETS					
Goodwill – at cost		571,025	571,025	–	–
Less: Accumulated impairment		(571,025)	(107,862)	–	–
Total carrying value of intangible assets		–	463,163	–	–

As at 31 December 2006 the above asset, which relates to the acquisition of the Sonobuoy business, was tested for impairment. An impairment loss of $463,163 was charged during the 2006 year (2005: $nil) on the following basis:

- The products, the subject of the goodwill, were completed to a saleable condition in June 2006 with further enhancement being undertaken.
- The Economic Entity has continued preliminary discussions with potential users both within Australia and overseas, though no sales can be made until such time as the products are fully tested in a reference site and to this end a sale to such a site was made in January 2007.
- The Economic Entity has prepared a three year projected possible cash flow budget based on commencing preliminary discussions and an assessed rated likelihood of success based on these continuing discussions.
- Until such time as we can adequately assess the results of the reference site the Economic Entity is not in a position to accurately assess its ability to secure future sales of this product. Accordingly low success rates have been applied, such that the resulting net present value is not sufficient to warrant any carrying forward value.
- The estimated cash inflows (net of costs) from projected sales were subjected to net present value discounted by a rate of 9.85%.

11 OTHER ASSETS					
CURRENT					
Prepayments		4,316	15,146	2,158	12,261
12 TRADE & OTHER PAYABLES					
CURRENT					
Trade payables		313,687	289,490	221,850	219,338
Amounts owing to controlled entity		–	–	–	126,227
		313,687	289,490	221,850	345,565
NON-CURRENT					
Trade payables		15,515	–	–	–
13 PROVISIONS					
CURRENT					
Employee benefits		62,583	88,500	46,443	66,312
Warranty claims	(a)	10,000	10,000	10,000	10,000
		72,583	98,500	56,443	76,312
NON-CURRENT					
Employee benefits		51,850	69,430	48,996	66,453

(a) Provision for warranty

Provision is made for the estimated claims based on returns history of the product range relative to sales volume. There were no amounts utilised, reversed or new amounts arising during the year.

	Economic Entity and Parent Entity			
	Number of shares 2006	Number of shares 2005	$ 2006	$ 2005
14 ISSUED CAPITAL				
Opening balance – (fully paid ordinary shares)	2,106,563,385	1,206,794,778	9,460,803	7,743,996
1:25 consolidation	(2,022,300,270)	–	–	–
Issued during the year	12,639,467	899,768,607	328,626	1,716,807
Closing balance – (fully paid ordinary shares)	96,902,582	2,106,563,385	9,789,429	9,460,803

The Company issued the following shares during the year:

- $328,626 in August 2006 pursuant to a placement of 12,639,467 fully paid ordinary shares in the Company at a price of $0.026.
- As approved at the Annual General Meeting of shareholders of the Company held on the 28th April 2006, the Company implemented a 1:25 share consolidation, which was formalised on the 1st May 2006 with the post-consolidation issued capital being 84,263,155 ordinary shares.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of the winding up of the Company ordinary shareholders rank after creditors and are fully entitled to any net proceeds on liquidation.

At 31 December 2006 there were no options to acquire fully paid ordinary shares in the Company.

15 CONTROLLED ENTITIES

	% Interest of Economic Entity	
	2006	2005
Parent entity		
Zylotech Limited		
Particulars in relation to controlled entities		
Sonacom Pty Ltd (incorporated in Australia)	100	100
Sonacom Systems Pty Ltd (incorporated in Australia)	100	100

16 SEGMENT INFORMATION

The Economic Entity continued to operate principally as a developer, purchaser and reseller of digital video surveillance and communication products, which include remote terrestrial and acoustic surveillance.

All the product range relates to one business segment, being the technology industry primarily for remote access surveillance and communication.

GEOGRAPHICAL SEGMENT

The Economic Entity operated wholly within Australia during the years 31 December 2006 and 31 December 2005.

17 KEY MANAGEMENT PERSONNEL COMPENSATION

Names and positions held of parent entity directors and specified executives in office at any time during the financial year are:

Parent Entity Directors

A. Unterweger	Chairman – Non-executive (appointed 5 September 2006)
J. Wayland	Director – Non-executive (appointed 5 September 2006/appointed Secretary 18 January 2007)
N. Sikiotis	Managing director – Executive
M. Marshall	Executive director (appointed 5 September 2006) / Chief Financial Officer/Company Secretary (resigned as Director 8 January 2007 and as Secretary 18 January 2007)
S.J.P. Borg	Chairman – Non-executive (resigned 5 September 2006)
D.B. Chalmers	Director – Non-executive (resigned 5 September 2006)
B.J. McGeorge	Managing Director – Executive (deceased 19 August 2006)

Specified Executives

R. Kelly	General Manager (Operations and Sales)
M. Magrabi	Engineering Manager

	Base Emolument $	Director Fees $	Non-cash Benefits $	Super Contribution $	Total $
2006					
The Company and controlled entities					
Directors					
A. Unterweger	–	26,000	–	–	26,000
J. Wayland	–	19,333	–	351	19,684
N. Sikiotis (1)	208,376	–	9,575	–	217,951
M. Marshall (2)	–	–	–	–	–
S.J.P. Borg	–	8,000	–	–	8,000
D.B. Chalmers	–	8,000	–	–	8,000
B.J. McGeorge (3)	157,211	–	4,137	15,274	176,622
	365,587	61,333	13,712	15,625	456,257

(1) Appointed Managing Director 21 August 2006
(2) Resigned as Director 8 January 2007
(3) Passed away on 19 August 2006

	Base Emolument $	Director Fees $	Non-cash Benefits $	Super Contribution $	Total $
Executive Officers					
R. Kelly	76,028	–	–	65,643	141,671
M. Magrabi	75,000	–	–	6,750	81,750
M. Marshall (2)	132,139	–	–	13,544	145,683
	283,167	–	–	85,937	369,104

17 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

	Base Emolument $	Director Fees $	Non-cash Benefits $	Super Contribution $	Total $
2005					
The Company and controlled entities					
Directors					
S.J.P. Borg	–	9,000	–	–	9,000
D.B. Chalmers	–	12,000	–	–	12,000
B.J. McGeorge	225,000	–	7,495	22,500	254,995
N. Sikiotis	181,566	–	–	–	181,566
M. Pallister	–	–	–	–	–
	406,566	21,000	7,495	22,500	457,561
Executive Officers					
R. Kelly	134,412	–	–	17,159	151,571
M. Marshall	122,123	–	–	11,969	134,092
M. Magrabi	75,000	–	–	6,750	81,750
W. Edwards	3,854	–	–	347	4,201
	335,389	–	–	36,225	371,614

Remuneration Practices

The Board is ultimately responsible for remuneration of Directors and senior executives based on the recommendations of the Remuneration Committee and shareholder approved Director remuneration levels determined at shareholder meetings held from time to time. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive directors do not receive bonuses or performance related remuneration. Options are issued under the Participants Options Incentive Scheme approved by shareholders at the Annual General Meeting held on 22 May 2002.

18 RELATED PARTY TRANSACTIONS

Share and option transactions in the Company by the directors or their director-related entities and specified executives are:

Shares	**Held at 31.12.2005 or at date of appointment**	**Post consolidated 1:25**	**Acquired**	**Disposed**	**Held at 31.12.2006 or at date of resignation**
Directors					
S.J.P. Borg	346,666	13,867	–	–	13,867
The Late B.J. McGeorge	60,166,665	2,406,669	220,000	–	2,626,669
N. Sikiotis	5,766,126	230,646	–	–	230,646
D.B. Chalmers	150,000	6,000	–	–	6,000
M. Marshall	–	–	–	–	–
A. Unterweger	93,600	–	–		93,600
J. Wayland *	7,756	–	–		7,756
Specified Executives					
R. Kelly	–	–	–	–	–
M. Magrabi	–	–	–	–	–

* The shares recorded above for Mr. Wayland are owned by his son though listed for record purposes.

There were no options in the company at 31 December 2006, nor were there any transactions in relation to options during the year.

Consultancy fees and allowance of $217,951 (2005:$181,566) (Company and Economic Entity) were paid to companies in which a director, Mr. N. Sikiotis, has a financial interest and are included in directors' remuneration set out in Note 17. In addition, purchases of inventory amounting to $61,681 were made from WNA Systems Pty Ltd, a company in which Mr. N. Sikiotis has an indirect financial interest. The services and purchases were charged at commercial rates. In addition, the Company paid $8,000 (2005:$12,000) to a company in which Vice Admiral D.B. Chalmers has a financial interest, $8,000 (2005:$9,000) to a company in which Mr. Syd Borg has a financial interest and $26,000 (2005:$Nil) to a company in which Dr. A. Unterweger has a financial interest, covering directors' fees.

Mr. S.J.P. Borg is a director of Investika Ltd. During the year, management, administrative, rent and secretarial fees of $Nil (2005:$27,000) were paid by the Economic Entity at commercial rates to Investika Ltd. Mr. S.J.P. Borg is also a director of PCS Australia Pty Ltd and during the year the Economic Entity sold $Nil (2005:$97,214) worth of inventory to that company at normal commercial rates and purchased $1,287 (2005:$15,130) worth of inventory at normal commercial rates.

The above amounts exclude GST.

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
19 LOSS PER SHARE				
Basic (loss) per share in cents	(2.39)	(1.36)		
Weighted average number of ordinary shares used in the calculation of basic (loss) per share	89,041,873	1,430,161,195		
Basic earnings/(loss)	(1,742,059)	(779,347)		

Diluted (loss) per share is not materially different from basic (loss) per share.

As disclosed in note 14 the company implemented a 1:25 share consolidation on 1 May 2006. Comparative disclosures have been adjusted to account for this consolidation.

20 COMMITMENTS & CONTRACTUAL ARRANGEMENTS

Operating lease commitments

Future operating lease and other rentals not provided for in the financial statements and payable:

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Not later than one year	289,164	104,539	127,131	40,248
Later than one year but not later than five years	54,671	19,625	–	19,625
	343,835	124,164	127,131	59,873

The Economic Entity leases property under operating leases expiring from one to two years. The leases generally provide the Economic Entity with the right of renewal. The Economic Entity also leases a motor vehicle with a remaining term of three months.

21 FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

The Economic Entity's significant accounting policies are set out in Note 1. Significant terms and conditions for each class of financial asset and financial liability, both recognised and unrecognised at the balance date, are as follows:

Receivables

The amounts receivable do not bear interest.

Trade creditors and accruals

Trade creditors are normally settled on 45 day terms.

21 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk

The following table details the Economic Entity's exposure to interest rate risk as at reporting date.

	Average Interest Rate %	Variable Interest Rate $	Non Interest Bearing $	Total $
2006				
Financial assets				
Cash	5.23	836,663	26,246	862,909
Receivables		–	272,962	272,962
		836,663	299,208	1,135,871
Financial liabilities				
Payables		–	330,202	330,202
Employee benefits		–	124,163	124,163
		–	454,365	454,365
2005				
Financial assets				
Cash	5.15	1,952,877	46,794	1,999,671
Receivables		–	302,492	302,492
		1,952,877	349,286	2,302,163
Financial liabilities				
Payables		–	289,490	289,490
Employee benefits		–	157,930	157,930
		–	447,420	447,420

(c) Net fair value

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

	Total carrying and Net Fair Value amounts 2006 $	Total carrying and Net Fair Value amounts 2005 $
Financial assets		
Cash	862,909	1,999,671
Receivables	272,962	302,492
	1,135,871	2,302,163
Financial liabilities		
Accounts payable	330,202	289,490
Employee benefits	124,163	157,930
	454,365	447,420

The carrying amount and net fair value are assessed as being of approximately equal value at balance date.

(d) Credit risk exposures

The Economic Entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Balance Sheet. At balance date, the Economic Entity did not have any material concentration of credit risk.

21 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Foreign exchange risk

The Economic Entity may be exposed to foreign exchange risk in relation to purchases of finished goods from time to time. The Economic Entity does not hedge this exposure by using financial instruments. At balance date, the net Australian dollar equivalent of unhedged amounts payable in US dollars calculated at year-end exchange rates was A$Nil (2005:A$15,657).

22 NOTES TO STATEMENTS OF CASH FLOWS

(i) RECONCILIATION OF CASH

For the purpose of the statements of cash flow, cash includes cash on hand and at bank and short term deposits at call.

Cash at the end of the financial year is reconciled to the related items in the statement of financial position as follows:

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Classified as cash				
Cash	90,565	268,176	71,445	227,631
Short term deposits	772,344	1,731,495	719,068	1,680,560
	862,909	1,999,671	790,513	1,908,191
(ii) RECONCILIATION OF (LOSS) AFTER INCOME TAX TO NET CASH (USED IN) OPERATING ACTIVITIES				
Net (loss) after income tax	(2,127,526)	(779,347)	(1,517,420)	(1,016,924)
Add/less items classified as investing/financing activities:				
(Profit)/loss on disposal of:				
Non-current assets	1,943	–	1,943	–
Add/(less) non-cash items:				
Exchange loss (gain)	(1,050)	774	(1,050)	774
Depreciation	17,699	53,744	5,955	12,048
Provision for:				
Write-down of investment	–	–	274	–
Bad and doubtful debts	(10,000)	–	(10,000)	–
Employee benefits	(43,497)	25,301	(37,326)	16,732
Non-recovery loan to subsidiary	–	–	355,802	544,798
Goodwill impairment	463,163	27,371	–	27,371
R&D tax offset	93,875	–	–	–
Net cash (used in) operating activities before change in assets and liabilities	(1,605,393)	(672,157)	(1,201,822)	(415,201)
Change in assets and liabilities:				
(Increase)/decrease in inventory	(115,428)	(100,944)	(115,428)	(100,944)
(Increase)/decrease in receivables	247,337	(287,007)	237,990	(27,575)
(Increase)/decrease in prepayments	10,830	1,792	10,103	1,678
(Decrease)/increase in trade creditors, accruals and provisions	3,845	(49,543)	(16,345)	(27,671)
Net cash (used in) operating activities	(1,458,809)	(1,107,859)	1,085,502	(569,713)

(iii) FINANCING FACILITIES

There were no formal financing facilities in place at the end of the year.

notes to the financial statements

for the year ended 31 December 2006

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
23 EMPLOYEE BENEFITS				
Aggregate employee benefits, including on-costs				
Current	62,583	88,500	46,443	66,312
Non-current	51,850	69,430	48,996	66,453
	114,433	157,930	95,439	132,765
Number of employees				
Number of employees at year end	12	14	7	7

Participants Option Incentive Scheme

The 10,000,000 options which the Company could issue under the Participants' Option Incentive Scheme which was approved at the annual general meeting of shareholders held on 31 May 2001, have all expired during the prior year. These options were exercisable at any time up to the expiry date at a price of $0.10 per share. Expiry was on the earlier of 30 June 2005 or the termination of the employee's employment contract.

The scheme was open to employees, consultants and directors of the Company as determined initially by the Company in general meeting and subsequently by the Board in its absolute discretion. Each option entitled the optionholder to subscribe for one ordinary share at the exercise price. The options were granted free of charge.

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	No.	No.	No.	No.
Movement in the number of share options held by employees are as follows:				
Opening balance	–	5,450,000	–	5,450,000
Expired during year	–	(5,450,000)	–	(5,450,000)
Closing balance	–	–	–	–

Superannuation contributions

The Economic Entity contributes to twelve defined contribution superannuation plans. Details of contributions to the defined contribution plans during the year and contributions payable at 31 December 2006 are as follows:

	Economic Entity and Parent Entity	
	2006	2005
	$	$
Employer contributions to the plans	120,762	92,501
Employer contributions payable to the plans	30,680	16,862

24 EVENTS SUBSEQUENT TO BALANCE DATE

On the 15th January 2007 the Company announced receipt of a formal offer from Quiktrak Networks Ltd to acquire the business operations of Zylotech Ltd. The essential elements of the offer include all the business assets of Zylotech excluding cash, debtors and receivables and include the take up by Quiktrak of all staff and their leave entitlements at the date of transfer. The consideration offered for the above assets is $2,000,000 payable by the issue of the equivalent of $2,000,000 worth of ordinary shares in Quiktrak Networks Ltd based on a volume weighted average price of the ordinary shares in Quiktrak Network Ltd for the 30 days preceding the date of acquisition.

24 EVENTS SUBSEQUENT TO BALANCE DATE (CONTINUED)

The Company announced its intention to call an EGM of shareholders of Zylotech Ltd to consider the offer and to vote on a resolution to be put at that meeting, however the company has since advised that it will have the offer listed as a resolution to be considered and voted on at the forthcoming AGM of shareholders instead of at an EGM.

The Board of Zylotech Ltd (excluding the Chairman Dr. Andrew Unterweger who as Chairman of Quiktrak Ltd, has abstained from considering the offer) has advised that at the EGM it will recommend to the shareholders that the offer, deemed inadequate, not be accepted in its current form.

During the year ended 31 December 2006 the Economic Entity applied for an R&D Tax Concession under Section 73Q of the Income Tax Assessment Act (refer Note 5) for an amount of $166,530. The Economic Entity has, since the end of the financial year, received $166,530 from the Commonwealth.

Other than as outlined above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Economic Entity, the results of those operations or the state of affairs of the Economic Entity, in future financial years.

25 IMPACT OF NEW STANDARDS NOT YET ADOPTED

The following Australian Accounting Standards and Interpretations issued or amended which are applicable to the parent entity and the economic entity but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

AASB/UIG Amendment	AASB Standard/UIG Interpretation Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Group
2005-10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 January 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007	1 January 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007	1 January 2007
	AASB 117: Leases	No change, no impact	1 January 2007	1 January 2007
	AASB 132: Financial Instruments:Disclosure and Presentation	No change, no impact	1 January 2007	1 January 2007
	AASB 133: Earnings per Share	No change, no impact	1 January 2007	1 January 2007
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2007	1 January 2007
New Standard	AASB 7: Financial Instruments:Disclosure	No change, no impact	1 January 2007	1 January 2007
2005-5	UIG 7: Applying the restatement approach under AASB128 Financial Reporting in Hyperinflationary Economies	No change, no impact	1 March 2006	1 January 2007
	UIG 8: Scope of AASB2 Share Based Payments	No change, no impact	1 May 2006	1 January 2007
	UIG 9: Reassessment of Embedded Derivatives	No change, no impact	1 June 2006	1 January 2007

26 COMPANY DETAILS

The registered office and principal place of business is:
Unit 21, 12 Mars Road
Lane Cove, Sydney NSW 2066
Tel:(02) 9427 2134
Fax:(02) 9427 2788

directors' declaration

In the opinion of the directors of Zylotech Ltd:

a) the financial statements and notes, set out on pages 18 to 39, are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of the Company and Economic Entity as at 31 December 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

   (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

b) the Chief Executive Officer and Chief Finance Officer have each declared that:

   (i) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

   (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and

   (iii) the financial statements and notes for the financial year give a true and fair view.

c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable for the reasons set out in Note 1(c).

Dated at Sydney this 23rd day of February 2007.

Signed in accordance with a resolution of the directors.

John Wayland	N Sikiotis
Director	Director

BOROUGH MAZARS
ACCOUNTANTS, AUDITORS & ADVISORS

Partners:
JOHN LEECE OAM
BRIAN VOGEL
ALAN MOFFAT
JOHN SCARFE
STEVE WEARNE
ALASTAIR WYLIE
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Independent audit report to the members of Zylotech Ltd

Scope

We have audited the financial report of Zylotech Ltd and its controlled entities for the financial year ended 31 December 2006 consisting of the income statement, balance sheet, cash flow statement, statement of changes in equity, notes to the financial statements and the directors' declaration. The financial report includes the consolidated financial statements of the Economic Entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the Economic Entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of Zylotech Ltd is in accordance with:

a) the Corporations Act 2001, including:
   i. giving a true and fair view of the Company's and the Economic Entity's financial position as at 31 December 2006 and of their performance for the financial year ended on that date; and
   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
b) other mandatory professional reporting requirements in Australia.

Inherent uncertainty regarding going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in note 1(c) to the financial statements, there is inherent uncertainty whether the Company and the Economic Entity will be able to continue as a going concern and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business at the amounts stated in the financial report.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditors' independence declaration set out on page 8 of the financial report has not changed as at the date of providing our audit opinion.

Borough Mazars
BOROUGH MAZARS

P.A. Coll—.
Paul Collins
Partner
Sydney

Date: 23rd February 2007

shareholder information as at 23 February 2007

A. STATEMENT OF ISSUED SHARES

(i) The total number of shareholders is 3,637. Each shareholder is entitled to one vote per share held. The total number of option holders is nil.

(ii) There are 96,902,582 ordinary fully paid shares and nil options on issue.

(iii) The twenty largest shareholders hold 32.86% of the Company's issued capital.

B. DISTRIBUTION OF SECURITIES

Equity Distribution	No. of shareholders	No. of option holders
1-1,000	1,481	–
1,001-5,000	849	–
5,001-10,000	368	–
10,001-100,000	769	–
100,001 and over	170	–

The number of shareholders holding less than a marketable parcel is 2,767.

C. SUBSTANTIAL SHAREHOLDERS

Substantial shareholder who has notified the Company is as follows:

Mark Pallister holds 12,639,467 shares (13.04%)

D. VOTING RIGHTS

Refer to Note 14.

E. TOP 20 SHAREHOLDERS APPEARING ON THE REGISTER

Name	Number of Shares	% of Shares	Name	Number of Shares	% of Shares
Pallister Family Trust	12,639,467	13.04	Andromeda Entertainment Pty Limited	666,667	0.69
McGeorge, Bernard John	2,626,669	2.71	Comsec Nominees Pty Limited	660,176	0.68
Alcardo Inv Limited	2,057,650	2.12	Ward, John Randall	655,667	0.68
Ho Elliott See Mun	2,006,032	2.07	Higgs, Brian Wesley	650,000	0.67
ANZ Nominees Limited	1,494,536	1.54	Allen, Dianne	640,000	0.66
Nilo-Aixul Pty Limited	1,320,000	1.36	Tran, Huy	622,285	0.64
C & V Latimer Pty Limited	1,000,000	1.03	F Fairthorne Junior Nominee	619,000	0.64
Golf Holdings Pty Limited	945,645	0.98	McCutcheon M K & W J	592,000	0.61
Choikee, Tibi Omar	750,400	0.77	Wirth, James Bartholomew	547,001	0.56
Levin, Frank	700,000	0.72			
Chen, Malcom	670,871	0.69	**Total Top 20**	**31,864,066**	**32.86**

F. ON MARKET BUY BACK

There is no current on market buy back.

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