Ezestream Pty Ltd

Business Valuation

Effective Date of Valuation
5th March 2009

1. CERTIFICATION AND CONDITIONS

Lee Goldstein of Business Reports & Values hereby certifies the following statements regarding this business valuation:

- I have personally inspected the assets, properties, or business interests encompassed by this appraisal.

- I have no present or prospective future interest in the assets, properties, or business interests that are the subject of this business valuation.

- I have no personal interest or bias with respect to the subject matter of this report or the parties involved.

- The consideration received for making the appraisal is in no way contingent upon the value reported or upon any predetermined value.

- To the best of my knowledge and belief, the statements and facts contained in this report, upon which the analyses, conclusions, and opinions expressed herein are based, are true and correct.

- I have not performed a historical analysis of the business's financial statements. I assume that the financial and related information supplied reflect the normal operations of the business. To the extent this is not an accurate representation, the analysis and conclusions drawn are not valid and shall not be represented in any context that implicitly or explicitly suggests that Business Reports & Values and its representatives believe the business valuation to be accurate.

- I have made all the enquiries that I believe are desirable and appropriate and that no matters of significance that I regard as relevant have to my knowledge, been withheld.

2. CONDITIONS & ASSUMPTIONS

- This appraisal is made subject to the following general contingent and limiting conditions:
- Neither the facts of any legal case nor the question of liability are within the scope of my report. This report is solely concerned with addressing the limited terms of reference and should not be used for any other purpose.
- I have relied entirely upon the documentation and items provided for my examination together with discussions on relevant aspects.
- I assume no responsibility for the legal description or matters including legal or title considerations. Title to the subject assets, properties, or business interests is assumed to be good and marketable unless otherwise stated.
- The subject assets, properties, or business interests are appraised free and clear of any or all liens or encumbrances unless otherwise stated.
- I assume responsible ownership and competent management with respect to the subject assets, properties, or business interests.
- The information furnished by David Ward is believed to be reliable and I have not undertaken any audit procedures to verify its veracity. I therefore issue no warranty or other form of assurance regarding its accuracy.
- I reserve the right to amend this report in the light of further information.
- I assume that there is full compliance with all applicable federal, state, and local regulations and laws unless the lack of compliance is stated, defined, and considered in the appraisal report.
- I assume that all required licenses, certificates, consents, or legislative or administrative authority from any local, state, or national government, or private entity or organisation have been or can be obtained or reviewed for any use on which the opinion contained in this report is based.

- Unless otherwise stated in this report, I did not observe, and I have no knowledge of, the existence of hazardous materials with regard to the subject assets, properties, or business interests. However, I am not qualified to detect such substances. I assume no responsibility for such conditions or for any expertise required to cover them.

- The analyses, opinions, and conclusions presented in this report apply to this engagement only and may not be used out of context presented herein. This report is valid only for the effective date(s) specified herein and only for the purpose(s) specified herein.

- This report has been prepared with care and due diligence. However, except for that responsibility which by law cannot be excluded, no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any party for negligence) is assumed by the author, Business Reports and Values, its employees or consultants, for the preparation of this report.

- The conclusions contained in the valuation and the report will be subject to review upon presentation of data, which is undisclosed or not available at the date of this report.

- The Principal of Business Reports & Values Lee G. Goldstein has been involved in the valuing and sale of businesses since 1986. He holds a double major degree in Accounting and Finance and the Advanced Certificate of Business (Real Estate). He has been the Triennial Certificate holder and Licensee of a business broking company since 1992.

PURPOSE & OBJECTIVE:

This report has been commissioned by the directors to appraise and to advise on the value of the business carried on by 'Ezestream Pty Ltd' for a possible sale.

FAIR MARKET VALUE

The mostly recognised and accepted standard of value is fair market value. The definition of fair market value is the cash, or cash equivalent, price for which property would change hands between a willing buyer and willing seller, neither being under any compulsion to buy or sell and both being adequately informed of the relevant facts.

GOING CONCERN

Our opinion of Fair Market Value relies on a "value in use" or going concern premise. This premise assumes that the business is an ongoing enterprise with management operating in a rational way with a goal of maximising the value of the business.

ezestream

THE BUSINESS

A wholly owned subsidiary of Ezenet Limited, Ezestream Pty Ltd carries on business as a dedicated complete service provider to the hospitality market, providing:

•Digital video on demand and broadband internet systems

•Scheduled pay movie systems

•Free to guest movie systems

•Movie content

OWNERSHIP & CAPITAL STRUCTURE

The business structure is one of a Pty Ltd Company.

PRODUCTS & SERVICES

Ezestream has successfully contracted 23,500 rooms throughout Australia and New Zealand with its various free to guest and pay movie systems and is recognized as a key provider of movie entertainment. More recently, Ezestream has licensed a low cost of capital guest pay movie and high speed internet system that has enabled the company to tap into the significant pay internet market in 4-5 star hotels.

The company remains focused on growing its market share in the supply of movie entertainment and internet services to its three target markets;

1. Hospitality
2. Mining Camps
3. Health Care

COMPETITORS

There is no shortage of competitors in this highly competitive industry.

Amongst the larger companies are Movielink, Video on Demand (VOD), Maginet and Intetouch

> *Telcos will have to invest in video on demand (VoD) services for future revenue, according to IT analyst Ovum.*
>
> *Ovum predicts that VoD revenues will reach $12.7 billion worldwide in 2011, making it one of the fastest growing digital content services over the forecast period.*
>
> *Starting from a base of $2.7 billion in 2007, the analyst expects to see more telcos across the globe launching their on-demand content propositions, moving themselves into content distribution.*
>
> *The company's forecast suggests that while VoD is not a short-term revenue generator, it will play a substantial role in telcos' future income.*
>
> *Telcos are facing competition from all kinds of players - from old pay TV media to new digital distribution entrants - and the pressures of network convergence. This, coupled with challenges around content acquisition costs and finding the winning VoD business model formula, will mean that it is not a source of cash for the moment.*
>
> *"VoD is not a revenue generator at the moment but a 'must have' vision of the future in terms of both cash flow and telcos' content business survival," said Aleksandra Bosnjak, content and media analyst at Ovum**

*Source voiceanddata.com.au

BUSINESS VALUATION APPROACHES

There are three generally accepted approaches to valuations. These are the income approach, the asset based approach and the market approach. Within each approach are the methods used to estimate value. The approaches and methods used may or may not be applicable to a particular valuation. Sometimes the valuation will dictate the approach and method. With respect to Ezestream a further valuation approach is applicable, that of per room serviced.

INCOME APPROACH

The theory of the income approach is that the value of the business is the present value of the future economic benefits (income stream) it's expected to provide. The economic benefits can be determined from historical results or future projections. When using the discounted future cash flow method, forecasts are typically prepared for five years and then these economic benefits are converted to the present value using a discount rate.

The discount rate is a rate of return required by an investor for the risk involved. This method is normally appropriate when economic benefits are not stable. Another method utilised for the income approach is the capitalisation method. This method capitalises a single income stream using a capitalisation rate. This rate is the discount rate minus the long-term sustainable growth rate. Generally the capitalisation method is used when a company's historical results are expected to continue in the future with a relatively stable growth rate.

ASSET BASED APPROACH

The asset-based approach utilises the Company's adjusted balance sheet as the primary focus of fair market value. This approach is important where the fair market value of a company's assets is significantly greater than its book value. The asset-based approach may be considered when valuing a controlling interest with significantly appreciated assets such as real estate.

THE MARKET APPROACH

The market approach draws comparisons to publicly traded companies or private companies that are similar to the subject company. The market approach uses empirical evidence of value using databases for private businesses and companies.

PER ROOMS SERVICED METHOD

Similar to the process of valuing child care centres by the number of children enrolled at the centre, or real estate agencies by a factor applied to the rent roll, the method of valuing Ezestream is by applying a value to the number of rooms serviced.

ADJUSTMENTS & ADD BACKS TO FINANCIALS

The Profit & Loss Statement presented by the vendor does not indicate to a prospective purchaser what income they might expect from the business. The preparation of an add back statement is necessary to bring the financial accounts back to a level playing field and represents the first stage in arriving at a value of the business based on its financial performance. The second stage is to apply an appropriate multiple based on industry standards to the adjusted net profit. To arrive at an adjusted profit the businesses profits and benefits plus one of the owners or managers salaries are added back including the non-cash expenses (mainly depreciation).

The Owner Benefit formula to use is:

Pre-Tax Profit + Owners Salary + Additional Owner benefits + Interest + Depreciation.

Depreciation is an expense that allows a business to deduct a certain amount of money each year from an asset so that its purchase value is reduced by its overall useful life. However, it is not an actual cash transaction. No money is physically leaving the business or changing hands. As well, when you purchase a business, it will likely be an asset sale whereby the assets come to you free and clear. You may be able to "step up" the assets' value and depreciate them again for tax purposes. Therefore, this amount is usually added back. With a business in this industry however, depreciation is not added back, as technological changes necessitate constant upgrades and replacements. Once these adjustments have been made, a multiple, based upon a variety of factors, is applied to this number and a valuation is established.

Profit and Loss adjustments						
Item	Dec-08 (6 Months)		2008		2007	
Total Trading Income	2,251,916		4,024,241		3,271,565	
Cost of Sales	662,063		1,268,201		942,305	
Gross Profit	1,589,853	70.60%	2,756,040	68.49%	2,329,260	71.20%
Expenses	1,386,539		2,418,901		2,086,250	
Operating Profit	203,314		337,139		243,010	
Add backs						
Amortisation	28,345		58,926		69,352	
Interest Paid	20,164		19,902		177	
Legal Costs			8,959		1,358	
Total Add-backs	48,509		87,787		70,887	
Adjusted Operating Profit	251,823		424,926		313,897	

THE MARKET APPROACH

This is the most common approach used when valuing SME's (small and medium enterprises). A return on investment (ROI) percentage is applied to the averaged adjusted profit figure derived from the add-back statement. The figure arrived at includes plant & equipment, stock and goodwill.

With regard to Ezestream an average of the eighteen months is taken. $255,760 + $366,000 = $621,760/18 x12 = $414,506.

Allowing for the increase of business and applying a ratio accordingly (15%) gives the following value $414,506 /.15 = $2,763,377.
As mentioned earlier, this industry is not a short term revenue raiser. A company already in the industry may well be willing to pay a premium for Ezestream, due to the infrastructure and the number of rooms contracted. Accordingly, a figure in the region of $3,000,000 would be justifiable.
As this figure is less than the written down value of the plant and equipment, which as at 30 June 2008 was $3,049,043, it could be argued that the WDV of plant and equipment should be the value

PER ROOMS SERVICED METHOD

As mentioned earlier, this industry is not a short term revenue raiser. Accordingly, a more justifiable valuation is the per rooms serviced method. Recent sales of VOD businesses in the United States have ranged from $96 US to $455 US per room. These sales are for much larger operations, and consequently achieved higher rates. Additionally they are for solely for Hotel rooms rather than the split of rooms Ezestream service. Accordingly if a value based on the method above were to be utilised, a per room valuation for Ezestream would be $ 3,000,000/23,500 = $127.66 AUS per room. This figure is very close to the lower end of the recent sales in the United States.

CONCLUSION

Ezestream is a is a dedicated complete service provider to the hospitality market, providing digital video on demand and broadband internet systems, scheduled pay movie systems and free to guest movie systems

The value of Ezestream is between $3,000,000 and $3,049,043 and a sale at a price equal to this or greater is fair and reasonable,

,

Lee Goldstein

For Business Reports and Values

Balance sheet ratios

Financial ratio analysis uses formulas to gain insight into the company and its operations. For the balance sheet, using financial ratios (like the debt-to-equity ratio) can show you a better idea of the company's financial condition along with its operational efficiency. It is important to note that some ratios will need information from more than one financial statement, such as from the balance sheet and the income statement.

The main types of ratios that use information from the balance sheet are financial strength ratios and activity ratios. Financial strength ratios, such as the working capital and debt-to-equity ratios, provide information on how well the company can meet its obligations and how they are leveraged. This can give investors an idea of how financially stable the company is and how the company finances itself. Activity ratios focus mainly on current accounts to show how well the company manages its operating cycle (which include receivables, inventory and payables). These ratios can provide insight into the operational efficiency of the company. There are a wide range of individual financial ratios that investors use to learn more about a company.

Working capital ratio

This ratio is also known as "the current ratio", and is one of the best-known measures of financial strength. The main question this ratio addresses is: "Does the business have enough current assets to meet the payment schedule of its current debts with a margin of safety for possible losses in current assets, such as stock shrinking or uncollectable debtors?"

A generally acceptable current ratio is 2:1; but whether or not a specific ratio is satisfactory, depends on the nature of the business and the characteristics of its current assets and liabilities.

The minimum acceptable current ratio is obviously 1:1 but that relationship is usually playing it too close for comfort.

Because there is a time lag between paying for materials and labour used to produce your goods and the receipt of the cash for those goods, the business needs money to fund its day-to-day operations. This money is referred to as working capital and is represented by the difference between current assets and current liabilities.

The formula for working out your working capital ratio is as follows:

Current Assets ($1,183,475) / Current Liabilities ($4,503,007) = $.26: 1.0

In this case it means that there is $.26 available in current assets to meet every $1 of current liability.

Liquidity Ratio

This ratio is also called "the quick ratio", and is known as the "acid test ratio" because it is one of the best measures of liquidity. This ratio is used to determine the solvency of the business or its ability to meet its immediate commitments. The liquid ratio is a much more exacting measure than the current ratio. By leaving out stocks and other non-cash assets, it concentrates clearly on assets that are liquid with a value that is fairly certain. It will answer the question of: "If all sales revenue should disappear, could my business meet its current obligations with the funds on hand or that can be easily accessed?"

A ratio of 1:1 is considered satisfactory unless the majority of your quick assets are in debtors and there is a pattern of debtors lagging behind rather than paying their accounts on time.

It is often referred to as the acid test. In calculating this ratio it is important to bring in only those current assets that are in cash or can be converted readily into cash. Similarly current liabilities brought in must only be those that need to be met quickly.

The formula for this ratio is:

Current Assets – (Stock & other non-cash assets)

Current Liabilities – (Liabilities not payable in the short-term)

= $1,170,434 / 766,106 = $1.53 *

This means that there is $1.53 in cash or near cash assets to meet every $1.00 of immediate commitment.

*Assuming the amounts payable to Parent Company are not payable in the short term.

Debt Ratio

This ratio measures the proportion of the total asset financed by creditors. The debt ratio is a measure of the relationship between total liabilities and total assets and is calculated thus:

Total liabilities ($4,561,309) / Total assets ($4,248,998)

= 1.07

Since this ratio is a measure of the margin of safety in the event of liquidation, the lower, the greater the asset protection

Receivables Turnover

The receivables turnover is a measure of how many times the average receivables balance is converted into cash during the year. It is calculated as follows:

Receivables turnover = Net sales revenue / Average receivables balance

= $4,024,241 / (700,937 + 439,672)/2 = 7.06 times

The average collection period is 365 / 7.06 = 51.7 days

Ezestream Profit & Loss Statements	
Six Months	Dec-08
Sales	2,251,916
Convertible note-gain on extension	
Research & Development Refund	
Interest Rec'd	7,218
	2,259,134
Cost of Sales	
Film Licence Fees & Movie Costs	468,382
Installation Costs	28,288
Cost of Equipment Sold	165,393
	662,063
Gross Profit	**1,597,071**
Expenses	
Advertising	9,898
Amortisation Film Library	28,345
Bad Debts	855
Bank Fees	2,000
Car Expenses	4,945
Commission	144,939
Company Secretarial Fees	
Computer Expenses - General	2,464
Depreciation	473,911
Digital Movies Hotel Guides	16,079
Entertainment	3,178
Exchange Rate Fluctuations	-1,045
Insurance	16,471
Internet Services	20,711
- Banks	20,164
Other Employee Expenses	4,157
Payroll Tax Expense	2,064

Post, Couriers & Drive Delivery	71,577
Printing Stationery & Office Supplies	4,735
Professional Fees	
Prov for Hol Pay	14,757
Prov for Long Service Leave	806
Rent	38,057
Repairs & Maintenance	5,713
Security	182
Superannuation	36,117
Telephone	19,777
Travelling	66,417
Wages & Salaries	367,908
Wages & Salaries - Contractors	11,356
	1,386,539
Operating (Profit) /Loss	**-210,532**

24. Feb. 2009 13:02 No. 6516 P. 11

EZESTREAM PTY LTD
67 104 695 865

PROFIT AND LOSS STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	2008 $	2007 $
SALES		
Sales	4,024,241	3,271,565
LESS: COST OF GOODS SOLD		
Opening Stock	207,999	-
Purchases - Movie Cost	897,732	666,064
Purchases - Digital Movies Hotel Guides	31,433	45,493
Installation Costs	31,496	96,007
Cost of Equipment Sold - Dalvi	99,541	134,741
	1,268,201	942,305
GROSS PROFIT FROM TRADING	2,756,040	2,329,260
OTHER INCOME		
Interest Received	15,379	7,193
Other Revenue	-	(7,800)
Loss on Sale of Non-current Assets	-	(1,421)
	15,379	(2,028)
	2,771,419	2,327,232

The accompanying notes form part of these financial statements.
This report is to be read in conjunction with the attached compilation report.

EZESTREAM PTY LTD
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PROFIT AND LOSS STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	2008 $	2007 $
EXPENSES		
Accountancy & Secretarial	15	72
Advertising, Promotion & Marketing	15,450	17,790
Amortisation	58,926	69,352
Bad Debts Written Off	647	10,323
Bank Charges	8,170	4,857
Commission Paid	258,506	208,994
Consultancy Fees	600	-
Computer Expenses	2,654	1,735
Depreciation	764,795	570,549
Entertainment Expenses	6,143	4,992
Exchange Rate Fluctuations	4,064	(630)
Filing Fees	212	212
Fringe Benefits Tax	7,332	1,838
General Expenses	2,373	422
Insurance	29,278	35,165
Interest Paid	19,902	177
Internet Services	36,703	24,317
Legal Costs	8,959	1,358
Motor Vehicle Expenses	17,355	-
NZ Income Tax Expense	6,786	-
Other Employer Expenses	10,426	3,441
Payroll Tax	1,217	-
Postage	122,423	98,401
Printing & Stationery	10,497	12,669
Provision for Holiday Pay	268	14,959
Provision for Long Service Leave	-	14,400
Rental Expenses	79,417	54,103
Repairs & Maintenance	6,848	5,684
Superannuation Contributions	64,958	63,527
Telephone	35,558	19,498
Travelling Expenses	98,379	55,975
Wages	740,040	792,070
	2,418,901	2,086,250
Profit from ordinary activities before income tax	352,518	240,982

The accompanying notes form part of these financial statements.
This report is to be read in conjunction with the attached compilation report.

EZESTREAM PTY LTD

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BALANCE SHEET
AS AT 30 JUNE 2008

	Note	2008 $	2007 $
CURRENT ASSETS			
Cash assets	2	438,200	209,355
Receivables	3	700,937	439,672
Inventories	4	13,041	388,082
Other assets	5	31,297	(1,127)
TOTAL CURRENT ASSETS		1,183,475	1,035,982
NON-CURRENT ASSETS			
Fixed Assets			
Plant and equipment	6	3,049,043	2,269,204
		3,049,043	2,269,204
Receivables	3	16,480	16,480
TOTAL NON-CURRENT ASSETS		3,065,523	2,285,684
TOTAL ASSETS		4,248,998	3,321,666
CURRENT LIABILITIES			
Loans - Bank		331,455	-
Amounts Payable to Parent Company		3,736,901	3,571,070
Sundry Creditors		6,786	-
Trade Creditors		309,189	172,727
Other Creditors		35,741	129,568
Allied Finance Insurance Fund		3,897	3,117
Payables		25,086	3,788
Employee benefits	7	53,952	50,897
TOTAL CURRENT LIABILITIES		4,503,007	3,931,167
NON-CURRENT LIABILITIES			
Hire Purchase Liability		36,040	-
Deferred Tax Liability		889	889
Income in Advance - NZ GST		9,760	40,039
Employee benefits	7	11,613	14,400
TOTAL NON-CURRENT LIABILITIES		58,302	55,328
TOTAL LIABILITIES		4,561,309	3,986,495
NET ASSETS (LIABILITIES)		(312,311)	(664,829)

The accompanying notes form part of these financial statements.
This report is to be read in conjunction with the attached compilation report.

24. Feb. 2009 13:02 No. 6516 P. 8

EZESTREAM PTY LTD
67 104 695 865

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

		2008 $	2007 $
2	**Cash Assets**		
	Westpac Term Deposit - LC	51,955	50,000
	Petty Cash Imprest	200	200
	Cash at Bank	386,045	159,155
		438,200	209,355
3	**Receivables**		
	Current		
	Trade Debtors	660,226	445,093
	Less: Provision for Doubtful Debts	(3,424)	(4,345)
		656,802	440,748
	Amounts Withheld	13,861	-
	Other Debtors	30,274	(1,076)
		700,937	439,672
	Non-Current		
	Deferred Tax Asset	16,480	16,480
4	**Inventories**		
	Current		
	Stock - Ezestream Players	-	25,189
	Stock - VideoJock	-	6,687
	Stock - Dalvi	-	83,835
	Stock - VOD	(207,999)	272,371
	Inventory - Perpetual	221,040	-
		13,041	388,082
5	**Other Assets**		
	Current		
	NZ GST	(3,661)	(7,480)
	Prepayments	34,663	6,353
	Withholding Credits	295	-
		31,297	(1,127)

These notes are to be read in conjunction with the attached compilation report.

24. Feb. 2009 13:02 No. 6516 P. 9

EZESTREAM PTY LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

		2008 $	2007 $
6	**Plant and Equipment**		
	Plant & Equipment	199,127	183,986
	Less: Accumulated Depreciation	(169,146)	(155,371)
		29,981	28,615
	Plant & Equipment - VideoJock	188,962	188,962
	Less: Accumulated Depreciation	(139,747)	(92,901)
		49,215	96,061
	Plant & Equipment - Ezestream Players	320,305	294,379
	Less: Accumulated Depreciation	(175,889)	(116,982)
		144,416	177,397
	Equipment Installed in Hotels	490,289	485,732
	Less: Accumulated Depreciation	(484,470)	(481,100)
		5,819	4,632
	Plant & Equipment - VOD	3,575,545	2,118,667
	Less: Accumulated Depreciation	(1,000,991)	(413,140)
		2,574,554	1,705,527
	Plant & Equipment - Dalvi (Choice 24/7)	244,434	243,041
	Less: Accumulated Depreciation	(135,832)	(92,663)
		108,602	150,378
	Motor Vehicles	44,435	-
	Less: Accumulated Depreciation	(10,878)	-
		33,557	-
	Guest Video	25,000	25,000
	Less: Accumulated Amortisation	(25,000)	(18,754)
		-	6,246
	Digital movies at cost	411,393	356,162
	Less: Accumulated Amortisation	(308,494)	(255,814)
		102,899	100,348
	Total Plant and Equipment	3,049,043	2,269,204

These notes are to be read in conjunction with the attached compilation report.