

Zylotech Limited and Controlled Entities

ABN 15 008 720 223

Appendix 4D and Half -Year Financial Report

31 December 2008

Appendix 4D

Zylotech Limited and Controlled Entities

ABN 15 008 720 223

Half-Year Report – 31 December 2008

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(This information should be read in conjunction with the last annual report and any announcements to the market by Zylotech Limited during the period)

	Half - Year Ended 31/12/08 \$A	Half - Year Ended 31/12/07 \$A	Amount change \$A	Percentage change %
Revenue from ordinary activities	794,926	1,833,614	(1,038,688)	Down 56.65%
Loss from ordinary activities after tax attributable to members	(1,357,058)	(1,017,095)	(339,963)	Up 33.42%
Dividends (distributions)			Amount per security	Franked amount per security
Final dividend			-	-
Interim dividend			-	-
There are no dividends proposed by the Company.				
Record date for determining entitlements to the dividend			N/A	N/A

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	0.57 cents	1.20 cents

Independent Auditor's Review Report

The Independent Auditor's Review Report can be found on page 3 of the attached financial report for the Half Year ended 31 December 2008.



Steven McKay
Director
27 February 2009

Zylotech Limited and Controlled Entities

Half -Year Financial Report

31 December 2008

Directors' Report

The directors present their report on the Company and its controlled entities for the half-year ended 31st December 2008.

1. DIRECTORS

The names of directors in office at any time during the half - year or since the end of the half-year are:

- Don Chalmers, Chairman, Non-Executive Director (appointed 1st December 2008)
- Steven McKay, Executive Director
- Lawrence Ang, Non-Executive Director (appointed 1st December 2008)
- Jason Brown, Non-Executive Director (appointed 1st December 2008)
- John Wayland (resigned 30th November 2008)
- Nicholas Sikiotis (terminated as Chief Executive Officer 19th December 2008, resigned as a Director 1st February 2009)

Directors have been in office since the start of the half-year to the date of this report unless otherwise stated.

2. REVIEW AND RESULTS OF OPERATIONS

The net amount of the consolidated operating loss after income tax attributable to the members of the Economic Entity for the six months ended 31st December 2008 was \$1,357,058 (2007 loss: \$1,017,095).

The Company has posted yet another disappointing result with revenue down by 56.65%, compared to the same period last year, from a level that was already materially below the breakeven point. As a consequence the Company has recorded an increased loss of 33.42% compared to the same period last year despite an improvement in margins which greatly assisted the overall result. The lack of cost containment notwithstanding the decreasing revenue was also a major contributing factor.

The current Board and new management has taken immediate action in this regard by implementing cost cutting initiatives amounting to \$1.3 Million per annum to stem the flow of losses in the face of challenging economic conditions and the likely consequential impact on the bottom line. The Company is now focussed on revenue endeavours which will aid the not insurmountable path towards profitability. Of note is the Group's renewed effort to keep pace with Research and Development and its ability to remain debt-free largely due to the loyal support of its shareholders.

The Company remains a going concern as at the date of signing this report.

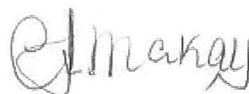
3. AUDITOR'S INDEPENDENCE DECLARATION

The Corporations Act requires our auditors, William Buck, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 3 and forms part of this Directors' report for the half-year ended 31st December 2008.

Signed in accordance with a resolution of the Directors.



Don Chalmers
Director



Steven McKay
Director

Dated this 27th February 2009

Auditor's Independence Declaration

To the Directors of Zylotech Limited:

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2008, there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

William Buck
Chartered Accountants



L. E. Tutt
Partner

Sydney, 27th February 2009

**Consolidated Income Statement
For the Half-Year Ended 31 December 2008**

	Note	Economic Entity	
		31/12/08 \$	31/12/07 \$
Revenue from ordinary activities	2	794,926	1,833,614
Cost of goods sold		(539,784)	(1,060,251)
Distribution expenses		(4,018)	(15,246)
Sales and marketing expenses		(498,802)	(476,227)
Technical development and services	3	(485,408)	(608,504)
Occupancy expenses		(101,990)	(61,836)
Administrative expenses	4	(504,731)	(618,545)
Depreciation expenses		(17,251)	(10,100)
Loss from ordinary activities before related income tax expense		(1,357,058)	(1,017,095)
Income tax benefit		-	-
Net loss after income tax		(1,357,058)	(1,017,095)
 Loss per share			
Basic (loss) per share in cents		(0.73) cents	(0.64) cents
Diluted (loss) per share in cents		(0.73) cents	(0.64) cents

The above consolidated Income Statement should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet as at 31 December 2008

	Note	Economic Entity	
		31/12/08 \$	30/06/08 \$
CURRENT ASSETS			
Cash and cash equivalents		725,969	1,345,225
Trade and other receivables		225,177	853,017
Inventory		787,904	769,036
Other		16,913	25,551
TOTAL CURRENT ASSETS		1,755,963	2,992,829
NON-CURRENT ASSETS			
Plant & equipment		115,170	116,484
Intangible assets		-	-
TOTAL NON-CURRENT ASSETS		115,170	116,484
TOTAL ASSETS		1,871,133	3,109,313
CURRENT LIABILITIES			
Trade and other payables		617,081	529,260
Provisions		142,498	146,874
TOTAL CURRENT LIABILITIES		759,579	676,134
NON-CURRENT LIABILITIES			
Trade and other payables		-	-
Provisions		50,629	15,196
TOTAL NON-CURRENT LIABILITIES		50,629	15,196
TOTAL LIABILITIES		810,208	691,330
NET ASSETS		1,060,925	2,417,983
EQUITY			
Contributed equity	7	14,231,200	14,231,200
Accumulated losses		(13,170,275)	(11,813,217)
TOTAL EQUITY		1,060,925	2,417,983

The above consolidated Balance Sheet should be read in conjunction with the accompanying notes.

**Consolidated Statement of Changes in Equity
For the Half-Year Ended 31 December 2008**

Economic Entity	Contributed equity \$	Accumulated losses \$	Total \$
At 1 July 2007	10,980,584	(9,767,363)	1,213,221
Loss for period		(1,017,095)	(1,017,095)
Issue of share capital	1,691,000		1,691,000
At 31 December 2007	12,671,584	(10,784,458)	1,887,126
At 1 July 2008	14,231,200	(11,813,217)	2,417,983
Loss for period		(1,357,058)	(1,357,058)
At 31 December 2008	14,231,200	(13,170,275)	1,060,925

The above consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**Consolidated Cash Flow Statement
For the Half-Year Ended 31 December 2008**

	Economic Entity	
	31/12/08	31/12/07
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,048,719	1,679,849
Payments to suppliers and employees	(2,101,643)	(3,338,015)
Interest received	67,031	22,069
Section 73Q R&D tax offset received	382,575	
Net cash (used in) operating activities	(603,318)	(1,636,097)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for plant and equipment	(15,938)	(11,547)
Net cash provided by/(used in) investing activities	(15,938)	(11,547)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares net of associated costs	-	1,691,000
Net cash provided by financing activities	-	1,691,000
Net increase(decrease) in cash	(619,256)	43,356
Cash at the beginning of the financial year	1,345,225	604,712
Cash at the end of the financial period	725,969	648,068

The above consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements For the Half-Year Ended 31 December 2008

1 Summary of significant accounting policies

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting", Urgent Issues Group interpretations and other authoritative pronouncements of the Australian Accounting Standards mandatory professional reporting requirements.

The half-year financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. All amounts are presented in Australian Dollars.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

The half-year financial report, including comparatives, should be read in conjunction with the annual Financial Report of Zylotech Limited and its controlled entities for the year ended 30th June 2008 and any public announcements made by Zylotech Limited and its controlled entities during the half year in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2008 annual financial report for the financial year ended 30th June 2008.

(a) 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.

Notes to the Financial Statements For the Half-Year Ended 31 December 2008

(b) Going Concern Basis

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 ability of the company to continue as a going concern is dependent upon the company's current endeavours to raise further capital from external sources at an amount and timing necessary to meet the future financial needs of the company.

In the unlikely event that our current efforts result in a negative outcome, then the going concern basis of accounting may not be appropriate with the result that the group may have to realise its assets and extinguish its liabilities other than in the normal course of business and in amounts different to that stated within the financial report.

	Economic Entity	
	31/12/08	31/12/07
	\$	\$
2 REVENUE FROM ORDINARY ACTIVITIES		
Sale of goods revenue from operating activities	757,269	1,809,270
Other revenue:		
<i>From operating activities</i>		
Interest received and receivable from other corporations	35,774	22,355
<i>From outside operating activities</i>		
Other revenue	1,883	1,989
Total other revenues	37,657	23,344
Total revenue from ordinary activities	794,926	1,833,614
3 TECHNICAL DEVELOPMENT & SERVICES		

The reduction in Technical Development & Services expenses compared to half year ended 31st December 2007 was largely due to a re-allocation of overheads to direct labour costs reflected in the cost of goods sold.

Notes to the Financial Statements For the Half-Year Ended 31 December 2008

4 EXPENSES FROM ORDINARY ACTIVITIES

Individually significant items included in administration expenses include:

• wages and salaries	246,621	204,754
• audit & professional services	43,180	24,240
• staff recruitment		44,453
• listing fees	12,576	16,519
• insurance	8,067	8,625
• legal expenses	29,699	38,967
• superannuation	26,866	10,501
• fringe benefits tax	2,230	6,330
• consultancy fees		106,322

5 SEGMENT INFORMATION

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

Geographical segment

The Economic Entity operated wholly within Australia during the period to 31 December 2008.

6 LOSS PER SHARE

	Economic Entity	
	<u>31/12/08</u>	<u>31/12/07</u>
Basic (loss) per share in cents	(0.73) cents	(0.64) cents
Weighted average number of ordinary shares used in the calculation of basic (loss) per share	185,778,567	157,870,495
Basic earnings/(loss)	(\$1,357,058)	(\$1,017,095)

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

Notes to the Financial Statements For the Half-Year Ended 31 December 2008

7 ISSUED CAPITAL

During the period, the company didn't issue ordinary shares and options.

	Number of shares 31/12/08	Number of shares 30/06/08	\$ 31/12/08	\$ 30/06/08
Opening balance	185,778,567	125,946,582	14,231,200	10,980,584
New share issued		59,831,985		3,427,774
Less: transaction cost				(177,158)
Closing Balance	185,778,567	185,778,567	14,231,200	14,231,200

8 EVENTS SUBSEQUENT TO BALANCE DATE

Between the end of the half-year and the date of this report, there has been no 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.

9 CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets and liabilities in existence at half-year ended 31/12/2008.

10. RELATED PARTIES

There are no related parties in existence at half-year ended 31/12/2008.

Directors' Declaration

In accordance with a resolution of the directors of Zylotech Limited and controlled entities, we state that:

In the opinion of the directors:

- a) the financial statements and supplementary notes, set out on pages 4 to 11, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Zylotech Limited and controlled entities as at 31st December 2008 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
 - (ii) complying with Accounting Standards AASB 134: *Interim Financial Reporting and the Corporation Regulations 2001*; and
- b) there are reasonable grounds to believe that Zylotech Limited and controlled entities will be able to pay its debts as and when they become due and payable.



Don Chalmers
Director



Steven McKay
Director

Dated at Sydney this 27th day of February 2009.

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Zylotech Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Zylotech Limited, which comprises the condensed balance sheet as at 31 December 2008, the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, selected explanatory notes and the directors' declaration of the consolidated entity. The consolidated entity comprises both the company and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the consolidated half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements *ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard *AASB 134 Interim Financial Reporting and the Corporations Regulations 2001*. As the auditor of Zylotech Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



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Matters Relating to the Electronic Presentation of the Audited Financial Report

This review report relates to the financial report of Zylotech Limited for the half-year ended 31 December 2008 included on Zylotech Limited's website. The Directors of the consolidated entity are responsible for the integrity of Zylotech Limited's website. We have not been engaged to report on the integrity of Zylotech Limited's website. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to / from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this website.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Zylotech Limited is not in accordance with the *Corporations Act 2001* including:

- a) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- b) Complying with Accounting Standard *AASB 134 Interim Financial Reporting and Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the statement expressed above, attention is drawn to Note 1(b) to the financial report. As a result of the matters described in Note 1(b), there is material uncertainty whether Zylotech Limited will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

William Buck
Chartered Accountants



L.E. Tutt
Partner
Sydney, 27 February 2009