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Independent Expert's Report

for

Chariot Internet Limited

Sale of

Education Business

and amounts receivable from two Asian customers

Prepared by

Leadenhall Australia Limited

26 June 2001

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APPENDICES

1 EXECUTIVE SUMMARY

This Independent Expert's Report ["IER"] has been prepared pursuant to Australian Stock Exchange ["ASX"] Listing Rule 10.10.2 to provide advice to shareholders with regards to the proposed sale by Chariot Internet Limited ["CTI"] of its Education business (English for Living ["EFL"]) and the amounts receivable from two Asian customers.

In our opinion, the proposed transaction is fair and reasonable to holders of CTI's securities whose votes are not to be disregarded (i.e. not associated with the transaction).

The attention of shareholders is drawn to the issues set out in Section 6, Considerations as to Whether to Vote in Favour of the Sale.

Before taking any action, shareholders should consider the whole of this IER. Shareholders' decisions as to whether to vote in favour of the transaction may be influenced by their particular circumstances and if shareholders are in any doubt, they should consult an independent adviser.

2 PURPOSE OF REPORT

On 10 May 2001, CTI announced to the ASX completion of a strategic review of its operations. CTI intends to undertake transactions that will prepare it to be in a position to take advantage of the expected consolidation of the Australian Internet Service Provider [“ISP”] sector.

The CTI Board has determined to dispose of its Education business and has resolved to use its listed status to acquire complementary businesses which will provide synergies and support for its regional ISP business.

CTI has announced the following transactions:

1. Sale of CTI’s Education business (English for Living) and the amounts receivable from two Asian customers

2. Purchase of Ewinexchange Limited [“EWE”]

The underlying businesses of these transactions constitute ‘substantial assets’ of CTI as defined by ASX Listing Rule 10.2.

ASX Listing Rule 10.1 sets out the criteria under which the acquisition or disposition of a substantial asset requires shareholder approval:

> *“10.1 An entity ... must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, any of the following persons without the approval of holders of the entity’s ordinary securities.*
>
> *10.1.1 A related party.*
>
> ...
>
> *10.1.3 A substantial holder, if the person and the person’s associates have a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting securities.”*

The parties associated with both of the proposed transactions are related parties to CTI. ASX Listing Rule 10.10 sets out the requirements in such a situation where shareholder approval is required:

> *"10.10 The notice of meeting under rule 10.1 ... must include each of the following.*
>
> *...*
>
> *10.10.2 A report on the transaction from an independent expert."*

The report by an independent expert must state whether, in the expert's opinion, the proposed transaction(s) are fair and reasonable to holders of CTI's securities whose votes are not to be disregarded (i.e. not associated with the transactions).

Leadenhall Australia Limited ["Leadenhall"] has been appointed by the Directors of CTI to prepare an Independent Expert's Report ["IER"] in relation to the proposed transactions.

The sale of the Education business is to be considered by shareholders at an Extraordinary General Meeting of CTI. This sale is not dependent on the EWE transaction and is to be considered first at a separate meeting without reference to the EWE transaction.

Mr H T Chua is the purchaser and is the father of Mr G Chua, a substantial shareholder in CTI and its Managing Director. Thus, Mr H T Chua and Mr G Chua are related parties of CTI.

This IER considers only the Education business transaction. Figures are quoted in Australian dollars unless otherwise stated.

The proposed transaction is discussed in more detail in Section 3 and Leadenhall's opinion of the transaction is set out in Section 7.

3 PROPOSED TRANSACTION

3.1 Key Terms

An Explanatory Memorandum ["EM"] is to be sent to shareholders outlining the key terms and conditions of the sale of the Education business and the amounts receivable from two Asian customers. The Completion date of the sale is expected to be within the five day period following the Extraordinary General Meeting which is scheduled for 31 July 2001.

The EM sets out the components of the sale as follows:

*"**3. BUSINESS AND ASSETS BEING SOLD***

Under the Sale Agreement, Chariot Internet will sell its Education Business, which comprises:

- *all rights and obligations of existing business agreements and contracts;*
- *a receivable from China Online for $50,000;*
- *any amounts received by Chariot Internet from the operations of the Education Business after 10 May 2001, will be payable to the Purchaser;*
- *all intellectual property owned and used by Chariot Internet in the course of its Education Business, including software source and object codes owned or licensed by Chariot Internet;*
- *all assets (owned or leased) relating to the operation of the Education Business. Leased assets will be assigned subject to lessor approval;*
- *any inventories relating to the Education Business;*
- *ownership of Chariot Internet (Malaysia) Sdn Bhd; and*
- *a receivable from Cyber Communication Limited ("**Cyber**") of US$875,000."*

The consideration for purchase is $7.0 million. This is to be applied against and to extinguish the majority of the secured loan from Mr H T Chua.

The purchase consideration incorporates a receivable owing from Hong Kong registered company Cyber Communication Limited [“Cyber Communication”] amounting to US$875,000 which relates to the acquisition of CTI’s High Reliability Network [“HRN”] blueprints to build one HRN in Asia. This transaction occurred on 20 June 2000 and this amount is still outstanding and is now payable by 30 June 2001. If received prior to the Completion date, it will reduce the purchase consideration due to CTI. If not received prior to the Completion date, the purchaser will assume the rights to the receivable and blueprints to build one HRN in Asia should the receivable not be collected.

3.2 Other Relevant Terms

The EM sets out ongoing services which are to be provided by CTI to the purchaser as part of the Sale Agreement. These include:

> ***“3.2 Ongoing services***
>
> *The Sale Agreement provides that the Company will provide billing system, dial up account and internet connectivity technical services and co-location facilities for the Purchaser’s equipment, to the Purchaser for a period of up to three years following completion. Some of these services will be provided free of charge, provided certain usage parameters are observed.”*

The EM also sets out other provisions of the Sale Agreement which include the resignation of Mr G Chua as Managing Director of CTI and a contingency payment due to CTI should the Education business be sold or listed for in excess of US$40.0 million within three years after the Completion date.

The significant conditions of the Sale Agreement can therefore be summarised as:

- Purchase consideration of $7.0 million.
- Receivables to be assumed by the purchaser unless received by CTI prior to settlement. Any amounts received prior to settlement in relation to the Cyber Communication receivable will reduce the consideration payable.
- Provision of technical services to the purchaser for a period of up to 3 years following settlement.
- CTI is responsible for all liabilities incurred prior to settlement. Monthly expenditures are expected to be in the order of $70,000.
- Mr G Chua to resign as Managing Director of CTI effective from settlement.
- A contingency payment due to CTI should the Education business be sold or listed for more than US$40.0 million within three years after Completion.

3.3 Financial Effects

Given the assets to be released from CTI and consideration to be received, the financial effects of the sale can be demonstrated in the following table. The estimated profit from sale equates to approximately $3.1 million (before tax) and can be broken down via disposition of assets as follows:

Sale of Education Business and Amounts Receivable from two Asian Customers Calculation of Estimated Profit to CTI		
	($'000s)	**($'000s)**
Purchase Consideration		7,000
Cyber Communication Receivable[1]	(1,802)	
China Online Receivable[2]	(50)	(1,852)
Effective Purchase Consideration		5,148
Capitalised Expenditure[3]	(1,589)	
Estimated Costs to Settlement[4]	(350)	(1,939)
Plant and Equipment	(19)	
Leased Assets	(47)	(66)
Profit on Sale (before tax)		**3,143**
Corporate Tax Rate		30.0%
Profit on Sale (after tax)		**2,200**

[1] The receivable from Cyber Communication has been delayed a number of times and its collectability is not certain. Collection date for the receivable has been extended to 30 June 2001 and at 31 March 2001 equated to:

US Dollar Denominated Receivable:	US$875,000
Assumed USD:AUD Exchange Rate:	0.4856
Australian Dollar Equivalent:	$1,801,895

The amount of this receivable may vary as it depends upon the prevailing exchange rate at Completion date.

[2] The receivable from China Online of $50,000 relates to prepayment of Lotus licences for EFL in China.

[3] Expenditure incurred to 31 March 2001.

[4] Estimated expenditure to be incurred from 1 April 2001 to settlement: $70,000 per month plus a $70,000 provision.

In addition to the above profit, CTI is committed to providing various services for the three year period following the sale of the Education business. Over this period, the cost of these services to be rendered is expected to be in the order of $70,000.

CTI expects that some of the profit from the sale of the EFL business may be offset against existing tax losses. However, as CTI follows tax effect accounting the net result will be recorded on a post tax basis. The after tax profit to be recorded on the sale will be approximately $2.2 million (using a 30% tax rate).

4 BUSINESS OVERVIEWS

4.1 Chariot Internet Limited

CTI was established in 1996 and listed on the ASX in December 1999. CTI's head office is located in Adelaide, South Australia, and other branches are located in Bendigo, Ballarat, Orange, Armidale, the Gold Coast and Mackay.

4.1.1 CTI Financial Performance and Position

For the purposes of this IER, it is appropriate to consider CTI as comprising its Internet division and Education business. The Internet division can be viewed as three business units as set out in Section 4.2.

The financial performance of CTI can be summarised as follows:

Chariot Internet Limited
Summary of Financial Performance

	9 months ended 31 March 2001		**Year ended 30 June 2000**	
	Internet ($'000s)	**Education ($'000s)**	**Internet ($'000s)**	**Education ($'000s)**
Total Revenue	12,431	-	15,961	-
Cost of Sales	(8,649)	-	(7,523)	-
Gross Margin	3,782	-	8,438	-
Expenditure	(6,043)	(377)	(3,491)	-
Earnings before Interest, Tax, Depreciation and Amortisation	**(2,261)**	**(377)**	**4,947**	**-**
Depreciation and Amortisation	(2,150)	-	(1,178)	-
Earnings Before Interest and Tax	**$ (4,411)**	**$ (377)**	**$ 3,769**	**$ -**
Interest Expense	(347)	-	(296)	-
Profit Before Tax	**$ (4,758)**	**$ (377)**	**$ 3,473**	**$ -**

Notes	31-Mar-01	30-Jun-00
Education expenses capitalised in the period:	$1,248	$341
Capitalised education expenses accumulated to 31 March 2001:	$1,589	

Whilst some education expenses have been expensed, the majority of the Education expenses have been capitalised through to 31 March 2001.

As at 31 March 2001, the assets and liabilities of CTI were as follows:

Chariot Internet Limited
Statement of Financial Position as at 31 March 2001

	Internet & Corporate ($'000s)	Sale and Related Items[1] ($'000s)		Total ($'000s)
Assets				
Current Assets				
- Cash	2,680			**2,680**
- Inventories	25			**25**
- Receivables	1,449	1,852	[2]	**3,301**
- Other	243			**243**
Total Current Assets	***4,397***	***1,852***		***6,249***
Non Current Assets				
- Property, Plant & Equipment	2,801	66		**2,867**
- Intangibles	13,114			**13,114**
- Investments	500			**500**
- Capitalised Expenses	280	1,589		**1,869**
- Future Income Tax Benefit	1,167			**1,167**
- Other	1,318			**1,318**
Total Non Current Assets	***19,180***	***1,655***		***20,835***
Total Assets	**23,577**	**3,507**		**27,084**
Current Liabilities				
- Accounts Payable	4,148			**4,148**
- Borrowings	7,228			**7,228**
- Lease Liabilities	690	33		**723**
- Provisions, Accruals & Other	1,649	30		**1,679**
Total Current Liabilities	***13,715***	***63***		***13,778***
Non Current Liabilities				
- Lease Liabilities	273	14		**287**
- Other	968			**968**
Total Non Current Liabilities	***1,241***	***14***		***1,255***
Total Liabilities	**14,956**	**77**		**15,033**
Net Assets	**$ 8,621**	**$ 3,430**		**$ 12,051**

[1] Comprises the Education business and the amounts receivable from two Asian customers.
[2] Comprise Cyber Communication receivable ($1,801,895) and China Online receivable ($50,000).

4.1.2 CTI Shareholders

The following table details CTI's top twenty shareholders as at 15 June 2001.

Shareholder	Holding	Ownership (%)
Equity Centre Pty Ltd [(1)]		
R Horlin-Smith	6,383,000	18.52
G Chua	15,208,000	44.14
	21,591,000	
Lityan Holdings Berhad	3,030,303	8.79
National Nominees Ltd	1,368,156	3.97
G & K Anthony	400,000	1.16
G Fong [(1)]	350,000	1.02
G Walker	270,000	0.79
T J Rose	160,000	0.46
Teiro Pty Ltd	145,000	0.42
Hunter Page Developments Pty Ltd [(1)]	120,000	0.35
Challenger Securities Ltd	100,000	0.29
R Kan	97,209	0.28
I Kadi	85,890	0.25
G H Kemp	84,616	0.25
P E Roberts	84,616	0.25
M W Anderson	80,990	0.24
T J Hannigan	80,000	0.23
Randell Management Services Pty Ltd	60,000	0.17
T P Byrne	58,000	0.16
H T Chua Holdings Pty Ltd	50,000	0.15
G D Coad	45,000	0.13
Top 20:	**28,260,780**	**82.02**
Total Ordinary Shares on Issue	**34,457,863**	**100.00**

Quoted Options on Issue

Total on Issue:	2,115,250
Exercise Price	$1.00
Expiry Date	31 Dec. 2002

Unquoted Employee Options on Issue

Total on Issue[(2)]	800,000
Exercise Price	$1.20
Expiry Date	22 Nov. 2002

[(1)] All securities held by Equity Centre Pty Ltd, Mr G Fong and Hunter Page Developments Pty Ltd are subject to a sale restriction which expires on 23 December 2001.

[(2)] The 800,000 unquoted employee options on issue include 175,000 options held by Mr G Chua that will lapse upon the sale of the Education business and his resignation as Managing Director of CTI.

4.2 CTI Background and Outlook

4.2.1 Chariot Internet Division

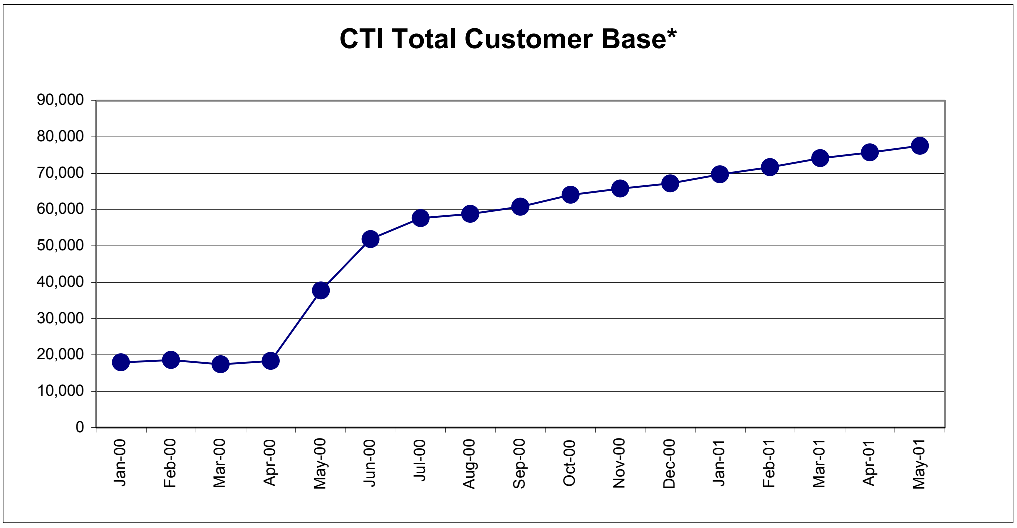
The three business units of the Internet division are:

1. **Provision of Internet Access**

CTI provides regional and rural Internet access to customers across South Australia and regional Victoria, New South Wales and Queensland.

The total customer base comprises all customers on the CTI database that have used a CTI dial up facility within the last 12 months. In May 2001, CTI's total customer base was approximately 77,600.

The following graph highlights the growth in CTI's total customer base since January 2000. Comparative figures detailed later in this Section (provided by the Australian Bureau of Statistics and Paul Budde Communication Pty Ltd) focus on active user figures, that is, users who have accessed their account over the prior 30 day period.



*Source: Chariot Internet Limited

Over the ten month period from August 2000 to May 2001, being the period after the last acquisition of an ISP business, monthly revenue has increased by approximately 4.0% (on a three month average basis). (The revenue receipts during this period varied from month to month with some months showing a decrease and some an increase on the previous month.)

2. <u>Wholesaling of Satellite Bandwidth to ISPs</u>

NetConnect Communications Pty Ltd ("NetConnect") was acquired by CTI for approximately $10.6 million with effect from 1 July 1999 and settled via the debt and equity issue in December 1999. In addition to providing approximately 13,700 new ISP subscribers outside of South Australia (included in the above section), the core business of bandwidth wholesaler was acquired.

Bandwidth facilitates the download of large amounts of data from international sources. NetConnect utilises satellite technology to purchase bandwidth from an international supplier and re-sells this bandwidth to regional ISPs. This wholesaling arm of CTI complements the retail ISP business.

The wholesaling activities have the twin objectives of buying and re-selling bandwidth for a margin and being able to access bandwidth for the retail ISP business. This access is important in order to provide a high quality of service and speed of access. In addition it attempts to secure lower overall costs of bandwidth access by buying on a volume basis.

CTI has a contract with Panamsat International Systems Incorporated ["Panamsat"] for the supply of bandwidth via satellite. This contract currently runs until 30 September 2003.

3. <u>High Reliability Network and Internet Related Consulting</u>

CTI's HRN is a separate hosting and delivery service targeted towards corporate and Government sectors. The HRN has been designed to provide a superior level of Internet access, namely a fast response time, high availability of service and high levels of security.

The HRN is complemented by a full range of IT consulting services aimed to maximise the efficiency of clients' networks and versatility of their Internet usage. The key consultation areas of CTI are voice over Internet protocol, ecommerce and co-location of clients' equipment.

4.2.2 Industry Outlook

The technology sector, both internationally and domestically, has experienced volatility since early 2000. In 2001, market participants are experiencing a period of consolidation and refocus of operations.

Market hype within the technology sector leading up to April 2000 saw share prices rise to record levels. It is now believed that the market was too bullish in its estimates of uptake and implementation of Internet technology as a day to day medium of information exchange. As reported in a January 2001 Deutsche Bank report[1]:

> *"The market simply got ahead of itself, with expectations that things would change more broadly and more quickly than has transpired. Early in the technology stock cycle many were buying the 'idea' or 'concept'. Disillusionment then set in because implementation was harder, slower and more complex than first envisaged."*

The ISP industry within which CTI operates has been particularly prone to the recent vagaries of the market. The Deutsche Bank report predicted the following with regards to the ISP industry:

> *"We do not see 2001 as the turning point for Internet and new media pure plays. The sector appears a classic case of capital oversupply – most likely resulting in consolidation throughout the year with benefits to come later.*
>
> *Internet usage and behaviour appears to have stagnated as the novelty factor wears off and users become more experienced in navigating to favourite sites."*

The general consensus appears to be that Internet technology will revolutionise the way consumers and businesses conduct their day to day activity, however, the adoption of such technology will proceed at a slower rate than that originally anticipated.

The ISP Industry in Australia

The Australian Bureau of Statistics reported a slight consolidation within the Australian ISP industry for the quarter ending December 2000.[2] Nationwide, the number of ISPs stood at 696 which represented a 3% decrease from the last quarter. This was attributed primarily to the smaller end of the industry which experienced a combination of firms exiting and structural changes within the industry such as mergers.

The break down within the industry as at December 2000 was classified as:

[1] Deutsche Bank, *Technology 2001 Outlook*, 31 January 2001.
[2] Australian Bureau of Statistics, *Internet Activity*, December Quarter 2000.

Classification	Number of Subscribers	Number of ISPs	% of Market	Number of Subscribers
Very Large	> 100,000	6	53.0%	2.0 m
Large	10,001 – 100,000	31	30.0%	1.2 m
Medium	1,001 – 10,000	171	13.0%	0.5 m
Small	101 – 1,000	359	4.0%	0.2 m
Very Small	< 100	129	0.1%	0.0 m
Total				**3.9 m**

CTI's total customer base as set out in Section 4.2.1 classifies it as a 'Large' ISP.

A recent industry report by Paul Budde Communication Pty Ltd detailed Internet subscriber numbers dating back to 1983[3]. An extract from this report follows:

Year	Households ('000s)	Businesses ('000s)	Total ('000s)	Annual Growth
1997	650	350	1,000	100%
1998	1,000	380	1,380	38%
1999	1,500	400	1,900	38%
2000	2,800	450	3,250	71%
2001 (e)	3,200	500	3,700	14%
2006 (e)			6,000	10%(1)

(1) Compounded annual rate of growth.

The compounded annual rate of growth from 1997 to 2000 equates to approximately 48%.

A further report by Paul Budde Communication Pty Ltd predicts continuing consolidation within the ISP industry with the ongoing viability of smaller ISPs (less than 2,000 subscribers) becoming questionable.

The current trend within the industry suggests that it will be necessary for CTI to continue its pursuit of increasing its customer base. As noted in the report[4]:

> *"The bigger companies are, in general, growing faster than the smaller ones. While in 1998 the national operators had a 60% marketshare, this has already grown to 75% in 1999. By 2001/2002 we estimate they will control at least 85% of the market."*

The report also provides its view of those players which, like CTI, have focused on regional and rural areas:

3 Paul Budde Communication Pty Ltd, *Australia – Internet Market – Statistics Overview*, April 2001.
4 Paul Budde Communication Pty Ltd, *Telecommunications and Information Highways*, April 2001.

> *"A range of smaller ISPs however, is concentrating on the far more lucrative business and regional markets. ... Regional operators are in general lean and mean and they have kept their expansion tightly under control, thus avoiding the high costs of 'going national'."*

Strategic focus on regional markets provides the opportunity to capitalise on what is at present an underdeveloped market. The recent Telecommunication Service Inquiry summarised their findings with regards to rural IT services within Australia as follows[5]:

> *"...a significant proportion of those who live and work in rural and remote Australia have concerns regarding key aspects of services which, at this stage are not adequate. Their concerns relate primarily to*
>
> *...*
>
> - *reliable access to the Internet and data speeds generally.*
>
> *The Inquiry's analysis suggests that the continued development of competition throughout Australia ... will have a positive effect on services over the next few years."*

4.3 Education Business - English For Living

4.3.1 Background Information

EFL is an English language education software product delivered to students via multimedia and interactive web-based platforms. The product provides online tutorials and continuous assessment which are designed to assist with all aspects of the English learning process.

The programme is split into six modules, module EFL 1 being the easiest through to module EFL 6, the most advanced. At present, module EFL 6 has been completed, EFL 5 is substantially complete and EFL 4 is in multimedia integration. Each module consists of twenty lessons which can be undertaken at a pace convenient to the student. The student undergoes a number of ongoing assessment tests throughout the lessons and on successful completion of EFL 6 the student is prepared for the traditional examinations to demonstrate competence in English for purposes of further study in an English speaking institution. EFL 6 has been deemed by a number of Australian universities to meet their 'English as a Foreign Language' assessment criteria. However, other assessment procedures may be conducted by the tertiary institutions where deemed necessary and this is determined on a case by case basis. This accreditation serves as part qualification for overseas students for entry into these universities.

[5] Telecommunications Service Enquiry, *Connecting Australia*, 30 September 2000.

To undertake the lessons, a student must connect to their local server and identification details are then transmitted to the authentication server currently in Australia. Once verified, data is updated as necessary and the student proceeds with their lesson from where they last finished. All billings are processed via the Australian server thus providing control over revenues.

In terms of product protection, the EFL software is unpatented and the product could be replicated given the required amount of time and resources, thus at present there is no tangible protection in the market for the EFL product.

EFL has been under development since May 2000. The EM details agreements which have been signed to date and include:

> *"To date, the Company has signed the following customer agreements:*
>
> - *China Online, for the provision of an online English comprehension and literacy course for secondary students. The contract provides for China Online committing to deliver a minimum of 22,000 Chinese secondary students in 18 months from September 2000;*
>
> - *Eosis Rahmat Industries and General Trading Co ("**Eosis**"), for Chariot Internet to provide a five year exclusive licence in Brunei for EFL 6. The contract provides for Eosis to deliver 5,000 students in the first year; and*
>
> - *Siri Co Ltd ("**Siri**"), for Chariot Internet to provide a five year exclusive licence in Korea for EFL 6. The contract provides for Siri to deliver 5,000 students in the first year."*

EFL currently has one consultant who is marketing the product in conjunction with agents throughout Asia. Countries which have been targeted include Brunei, Indonesia, China, South Korea, Malaysia, Cambodia, Thailand, Japan, Vietnam and Taiwan.

4.3.2 Industry Outlook

The online education industry has experienced similar fortunes of the wider technology sector. The expectation of the rapid adoption of the Internet as a medium of information exchange created a great deal of interest in online education and a significant amount of venture capital has been injected into the industry. A US newsletter of 30 March 2001 reported[6]:

[6] Silicon Valley Business Ink, *Investors Eyeing Education Sector*, 30 March 2001.

> *"Venture capitalists and other private investors infused more than $5 billion into private education-related ventures in 1999 and 2000, more than one and a half times the amount in the previous nine years combined…"*

Like the greater technology and Internet sector, online education too suffered a downturn following the stock market correction of April 2000. Market commentators in the US are predicting 2001 to be a period of consolidation within the industry, however, longer term there is perceived to be some improvement for online educators[7]:

> *"It's fair to say the education economy is not immune in the downturn in the larger Internet economy. ... The next 12 months are going to be a period of increased clarity in the marketplace. By that, I mean the winners and losers will be clearer."*

In terms of market size, a study by International Data Corporation, USA, reported that in 1999 the global online education market was generating US$600 million in annual revenues. In 1999, it was predicted that these revenues would increase to US$10 billion by 2002[8].

A 2000 article from *The Industry Standard* predicts that the US market for online education will reach US$7 billion by 2003[9].

In terms of the Asian market, NextED Limited predicts the Asian higher education market has an annual value of approximately US$50 billion. Of this, the market for online and distance education services in Asia is estimated to be in the order of US$6 billion and growing at a rate of 20% per annum[10].

The above estimates are indications that the online education market could be significant. However, without a meaningful breakdown of that market by country and by type of service, it is difficult to extract meaningful data.

Furthermore the competitors, actual and potential, are difficult to identify as the EFL product is relatively new in what could be considered to be an embryonic market.

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[7] Peter J. Stokes in *Online Education Companies Clicking on Hard Times*, Education Week, 24 January 2001.
[8] Fortune On-line Learning Supplement, 24 May 1999.
[9] The Standard, *College Off-Campus*, 13 September 2000.
[10] Web Site – NextEd, www.nexted.com

4.3.3 Business Prospects

The Education business aims to sell an exclusive 5 year (with a further 5 years at no cost subject to performance) licence for each country for a fee of US$2.5 million. In addition, there are then ongoing fees related to maintenance of the system and/or a charge per student. There are variations of the fees to be charged from country to country. The initial agreements are for the delivery of Modules EFL 4, EFL 5 and EFL 6, although it is to be recognised that there are variances between the arrangements.

As at the date of this IER:

China

A licence agreement was made dated 28 April 2000 between CTI and China Online. Changes in licensing requirements in China required the arrangement of a licence between China Online and China Edu.com. This was completed in January 2001. Technical issues have caused delays and are being addressed. CTI expect that China Edu.com may start marketing in China in August 2001

Brunei

An executive summary agreement was signed on 20 December 2000 with Eosis Rahamat Industries and General Trading Co. The initial licence payment has not been received. There has been a change of the parties in Brunei responsible for delivering on the agreement and the Education business has received verbal assurances that the deal is to proceed. It is now anticipated that the product will be taken up in October 2001.

The agreement will provide for total fees of US$2.5 million which translates to $5.0 million at an exchange rate of 0.50USD:1AUD. Out of this amount there are direct sale expenses to be paid and a requirement to make an investment by way of convertible note in the licensee.

Korea

An executive summary agreement was signed on 23 May 2001 with Siri Co Ltd. The payment due on signing the agreement, US$50,000, has not been received as at the date of this IER. The Education business expects to receive payment of this and other amounts due under the agreement in due course.

The agreement will provide for total fees of US$2.5 million which translates to $5.0 million at an exchange rate of 0.50USD:1AUD. Out of this amount there are direct sale expenses to be paid.

Discussions are continuing with other parties in other countries. As at the date of this IER, no payments have been received in respect of any of the above Heads of Agreement/contracts.

The practical difficulties of pursuing a foreign company/entity overseas and the potential damage to what could be potentially rewarding business relationships are such that CTI is trying to take a supportive stance with its counter-parties to bring about the consummation of the Heads of Agreements/contracts. It is uncertain when (or if) any monies will be paid.

5 ASSESSMENT APPROACH

ASX Listing Rule 10.10.2 requires the Independent Expert to state:

> "*Whether the transaction is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded.*"

The Australian Securities and Investment Commission ["ASIC"] has issued Policy Statement 75 and Practice Note 43 which are relevant when reporting on transactions for which an IER is required.

5.1 ASIC Policy Statement 75 - 'Fair and Reasonable'

Policy Statement 75 refers to an offer for securities or 100% ownership of a target company. This transaction is not a sale of securities but of assets - the Education business and Asian receivables. Nevertheless, the principles behind ASIC Policy Statement 75 are relevant for adoption in this matter. In lieu of "offeror" the reader should substitute "purchaser".

In assessing whether or not the transaction is fair and reasonable, we have drawn our definitions of "fair" and "reasonable" from ASIC Policy Statement 75 and have used the following definitions in assessing this transaction

Fair – The transaction is fair if the value of the price or consideration is equal to or greater than the value of the assets that are the subject of the offer.

Reasonable – The transaction is reasonable if it is fair. It may also be reasonable if, despite not being fair but after considering other significant factors, shareholders should approve the transaction in the absence of any higher offer being made.

In assessing a transaction under Section 10.10.2, the IER is only concerned with the position of the non-associated shareholders.

5.2 ASIC Practice Note 43 – "Valuation Methodologies"

The assessment of whether or not the proposed transaction is fair and reasonable has been determined by considering the position of CTI before and after the transaction and examining issues which impact upon the valuation of the Education business.

Practice Note 43.39, states:

"It is not the ASIC's role or intention to limit the expert's exercise of skill and judgement in selecting the most appropriate method or methods of valuation. However, it is appropriate for the expert to consider:

(a) the discounted cash flow method;

(b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets, on the basis that a controlling shareholder would seek to maximise the value of its investment;

(c) the amount which an alternative acquirer might be willing to offer if all the securities in the target company were available for purchase;

(d) the amount that would be distributed to shareholders on an orderly realisation of assets;

(e) the most recent quoted price of listed securities; or

(f) the current market value of the asset, securities or company.

The ASIC does not suggest that this list is exhaustive or that the expert should use all of the methods of valuation listed above."

5.3 Valuation Approaches

There are three main valuation approaches which can be applied to a business, asset or other form of investment. These are the asset approach, market approach and income approach. A basic understanding of the assumptions which underlie these methodologies will confirm that they comply with the above recommendations put forward by the ASIC.

5.3.1 Asset Approach

The asset approach is primarily used for companies/businesses that are making less than an economic rate of return on assets employed. In such a scenario, winding up of the company may be the best way to maximise shareholder value, in which case the assets of the business will be sold separately.

In the case of the Education business where earnings have not yet been generated but where they are in prospect, then the asset approach is not relevant except to the extent that it identifies costs to date. However, without an appreciation of the costs to complete the project and/or the potential income which could be derived, an asset approach by itself does not fully inform shareholders.

As the Education business is still in a start up and development phase we have not used an asset approach.

5.3.2 Market Approach

The market approach to value is based on the principle of substitution. In other words, substitute companies, assets or investments should sell at the same price. This approach to value involves comparing key valuation indicators of companies comparable to the company being valued, or analysing past transactions which are comparable with the transaction at hand.

It is reasonable to use the market approach method when:

- there is an adequate number of comparable companies or market transactions; and

- reliable data is available for both the subject company and the comparable companies, both as to their financial position and as to the basis of market values.

We have not been able to identify any companies which are directly comparable with the EFL product. However, there are two ASX listed companies which have some common elements, viz. Tribeca Corporation Limited [“Tribeca”] (formerly Worldschool Limited) and ISIS Communications Limited [“ISIS”].

Tribeca’s primary activity in the financial year ended 31 December 2000 was the provision of web based and other education and training. In September 2000, Tribeca acquired the entire share capital of IntegraTec Pty Limited, a provider of education and training for the financial services sector. In March 2001, the business THP Services Pty Limited was acquired. Tribeca’s operations are now more diversified and are becoming less focussed on student education.

The consolidated loss for Tribeca for the financial year ended 31 December 2000 was $21.1 million. This loss includes the entire expenditure relating to overseas development amounting to $5.1 million.

The activities of ISIS include broadcast media, educational content and an Internet business.

The educational content business is conducted through Planet Learning Pty Limited which is 51% owned by ISIS with agreements to acquire two further tranches of 14.5% each so that it can move to 80%. There is a call option for the balance of the 20% in favour of ISIS. The 49% not owned by ISIS in Planet Learning is owned by the University of NSW. Planet Learning's primary product is Planet English, an English language learning interactive software program for use in language colleges in universities throughout the non-English speaking world.

ISIS reported a consolidated operating loss after tax and abnormal items for the financial year ended 31 December 2000 of $48.3 million (of which abnormal items amounted to $28.6 million).

Thus, whilst both of the above companies have some elements of comparability with CTI's Education business, the size of their significant losses and the inability to extract data related specifically to their education products makes any comparison between them both difficult and not meaningful.

5.3.3 Income Approach

The income approach to value involves calculating the present value of the company's estimated future stream of earnings or cash flows.

Income approach methodologies include discounted cash flows and capitalisation of earnings, cash flow, or dividends. (Capitalisation techniques are a short form calculation of discounted cash flow calculations.)

Although the discounted cash flow approach relies on the availability of long term earnings and cash flow projections, it is particularly suited to situations where cash flows (and/or earnings) are not stable in the short term, or where significant cash outflows will be incurred prior to cash inflows being earned. In our view, there can be as much error in using capitalisation methods with single point estimates when changes are known to be occurring as there can be in using the discounted cash flow approach with uncertain data.

5.3.4 Preferred Methodology

The discounted cash flow methodology (an income approach) is Leadenhall's preferred valuation method where it can be applied.

The valuation of the Education business is one which can be highly subjective because of the embryonic nature of the business and the high degree of uncertainty about receipt of cash flows from Heads of Agreement/contracts.

In addition, there are significant costs to be undertaken to complete the modules and these in turn have uncertainty attached to them as to their timeframe and level of final costs.

It is therefore appropriate to consider other issues related to whether or not the transaction is fair and reasonable.

5.4 Assessment of Consideration

The nature of the transaction for the sale of the Education business is such that there are a number of components that require consideration in order to determine the effective value of the consideration being offered for the purchase as at the date of this IER.

It must also be borne in mind that the consideration includes the assumption of the Cyber Communication receivable (if not collected prior to settlement).

A calculation of the assessment of that consideration for the Education business in isolation can be set out is as follows:

	$'000s
Consideration Payable	7,000
Less: Receivable owing from Cyber Communication	1,802
Less: Receivable owing from China Online	50
Less: Vendor services to be provided	70
Effective Purchase Consideration of Education Business (including related plant and equipment)	**5,078**

In assessing the effective consideration above it is assumed that value can be realised from the Cyber Communication receivable either through its collection or by taking over the rights under the Cyber Communication arrangements. The overall purchase price will effectively be increased should this debtor prove uncollectable or should it prove difficult for the purchaser to obtain value from the rights under the Cyber Communication arrangements.

5.5 Assessment of the Value of the Education Business

In defining value, we have used a fair market value definition[11], viz.:

> *"The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts."*

This normally assumes:

- a reasonable timeframe to complete the transaction; and
- neither party having any special circumstances.

In assessing fair market values, we have not taken into account any specific investment value that the business may have to a particular purchaser.

An assessment of the value of the Education business has been made by applying a discounted cash flow methodology. The preliminary scenario valuation involves estimating potential timing of the receipt of cash from contracts net of direct sale expenses, applying a probability factor to those potential net receipts and from those probability adjusted receipts deducting expected expenditures to derive net cash flows. These cash flows are then 'discounted' in order to calculate a present day value.

In assessing potential future cash flows we have been forced to make broad and hypothetical assumptions about revenue streams (both for licences and maintenance), levels of operating expenses and levels of capital and development expenditure. These assumptions are not verifiable and could vary substantially from actual outcomes.

A post-tax real rate of return of 25% per annum (and thus discount rate) has been assumed in these calculations[12]. On face value, such a discount rate may be considered low, however the valuation process of adjusting revenue receipts according to probabilities accounts for a portion of the risk inherent in these cash flows. It should be noted that the probability factors applied are highly subjective and considerable caution must be exercised in assessing these results given the past delays in the receipt of cash from signed Heads of Agreements.

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[11] Source: *International Glossary of Business Valuation Terms*, National Association of Certified Valuation Analysts, USA.
[12] Refer to Appendix A, Determination of Discount Rates, for a complete discussion.

Incorporating these assumptions, the preliminary scenario valuation yields a value of the Education business in the range of approximately $1.8 million to $3.0 million. It should be noted that this is predicated on individual probabilities greater than 50% of collecting the receivables from the Brunei and Korea agreements. By incorporating into the valuation model the assumption that either one of these agreements does not come to fruition, a negative value for the Education business results.

A further scenario analysis has also been undertaken which assumes guaranteed receipt of cash flows from the Brunei and Korea agreements (i.e. 100% probability adjustment applied).[13] The effect of this is to increase the valuation of the Education business to a range of approximately $4.4 million to $5.5 million.

The addition of a further sale of an exclusive licence at US$2.5 million ($5.0 million at an exchange rate of 0.50USD:1AUD) would enhance the valuation. As the direct sale expenses vary by licence, it would be reasonable to allow for a net $4.0 million per exclusive licence. There is considerable marginal benefit in additional contracts as the business's fixed costs have already been offset against the existing agreements.

This analysis confirms that the valuation of the Education business using discounted cash flow methodology is highly sensitive to the assumptions made. This degree of variability is such that it reduces considerably the usefulness of the analysis. A consideration of other factors relating to the Education business is therefore critical.

[13] Refer discussion in Section 4.3.3., Business Prospects.

6 CONSIDERATIONS AS TO WHETHER TO VOTE IN FAVOUR OF THE SALE

6.1 Ability to Fund

The operating performance of CTI for the nine month period ending 31 March 2001 is set out in Section 4.1.1. Both divisions have incurred losses before interest, tax, depreciation and amortisation. In addition there has been capitalised expenditure in respect of the Education business.

The level of interest bearing debt (excluding leases) has risen from $4.4 million at 30 June 2000 to $7.2 million at 31 March 2001.

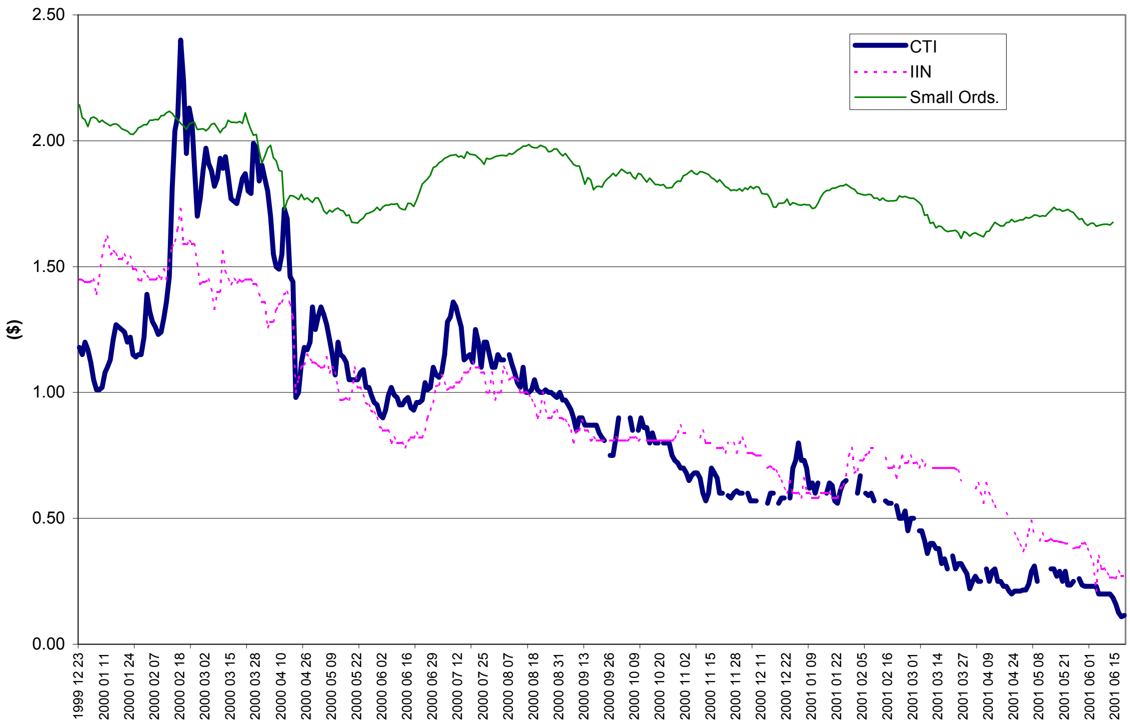
Debt Funding

The figures in Section 4.1.1 show that the current rate of expenditure of the Education business is unsustainable. In the absence of any major contract receipt, such deficits could be expected to continue until at least 30 June 2002.

Faced with the current set of operating conditions, it is unlikely that CTI could borrow further funds. Existing borrowings are secured by a fixed and floating charge over all of the assets and undertakings of CTI, further limiting CTI's ability to raise additional debt.

Equity Funding

The share price performance of CTI has been poor and has reflected general market sentiment towards technology companies. The following graph traces the price history of CTI, iiNet Limited (a listed ISP and comparable company for the purpose of this analysis) and the Small Ordinaries Index of the ASX (transformed to a base of 1:1000). Prices begin from December 1999 when CTI listed on the ASX.



The graph highlights the widening spread between technology stocks such as CTI and the more diverse Small Ordinaries Index. Such a softening in prices and lack of confidence in the sector reduces the attractiveness and availability of new equity issues as a source of finance.

It could be seen by some stock market participants that continued expenditure on a technology orientated project such as EFL in the current climate is not conducive to a healthy share price. As such, the divestment of the Education business could lead to an improvement of market sentiment towards CTI and a re-rating of its shares.

6.2 Net Tangible Asset Position

In the current market environment where raising equity is extremely difficult and CTI does not have the ability to raise further debt, the sale of the Education business is a realistic alternative for shareholders in order to realise its value and to improve the financial position of CTI.

The divestment of the Education business would result in book net tangible asset backing per share being restored to a positive figure, as detailed in the following table.

Post-Sale Net Tangible Asset Calculations				
	31-Mar-01		Post-Sale	
	($m)	($m)	($m)	($m)
Net Assets[(1)]		12.1		12.1
Profit on Sale (after tax)				2.2
Conversion of Debt to Equity				0.1
Resultant Net Assets		12.1		14.4
Less: Intangible Assets				
Goodwill & Patents	13.1		13.1	
EFL Capitalised Expenses	1.6		0.0	
HRN Capitalised Expenses	0.3		0.3	
Intangibles - Other	0.1	15.1	0.1	13.5
Net Tangible Assets		**(3.0)**		**0.9**
Ordinary Shares on Issue[(2)]		34.4		34.4
Add: Shares to be Issued[(3)]				0.7
Total Ordinary Shares on Issue		34.4		35.1
Net Tangible Assets per Share ($)		**(0.09)**		**0.03**

[(1)] Includes Future Income Tax Benefits.

[(2)] Excludes effects of options exercise (currently significantly out of the money).

[(3)] Additional ordinary shares to be issued: Half of the balance of the debt owing as at the date of settlement (up to a maximum of $250,000) to be issued at $0.40 per share and half at the weighted average share price five days after the notice of meeting is dated and dispatched. Calculated as:

	$'000s
Total Debt as at 31 March 2001	7,228
Plus:	
Advance and Estimated Interest to 31 July 2001	247
Total Debt at 31 July 2001	7,475*
Less:	
Purchase Consideration	7,000
Cash Payment	350
Outstanding Balance	125*
Ordinary Shares to be issued, say, for the purposes of this calculation:	700,000

*These amounts may vary depending upon the prevailing exchange rate at Completion date.

6.3 Gearing/Debt Levels

CTI has two secured advances. One advance is under a loan deed of 23 November 1999 and was for a maximum sum of $5.0 million. This was varied on 1 March 2001 to $4.25 million. This facility can be terminated by the lender upon 12 months written notice but cannot be terminated before 31 January 2002 (except in the event of default). Thereafter, the lender may terminate the deed by giving 14 days written notice to CTI. The balance outstanding at 31 March 2001 was $4.2 million.

We understand that there has been no notice of any event of default.

The second loan facility is a Singapore dollar denominated loan for the Singapore dollar equivalent of USD$1.5 million. As at 31 March 2001, that and accrued interest was equivalent to approximately $3.0 million. This advance is repayable on the earlier of 30 June 2001 and the date on which CTI receives an amount(s) equivalent to the amount of the advance from the Brunei contract of 20 December 2000. The lender has agreed to extend the repayment date until 31 July 2001.

The effect of the proposed transaction, and related debt settlement, will mean that CTI will have removed $7.2 million (as at 31 March 2001 and estimated to be $7.5 million as at 31 July 2001) of interest bearing debt and a charge over the assets of CTI. The book gearing ratio will have improved from 40.4% to 5.9%.

	Pre-Sale ($m)	**Post-Sale ($m)**	
Interest Bearing Debt	7.2	-	
Lease Liabilities	1.0	0.9	
Total Interest Bearing Debt	8.2	0.9	
Equity	12.1	14.4	(1)
Gearing Ratio	40.4%	5.9%	

(1) Excludes effects of CTI trading from 1 April 2001 to date of settlement.

In addition to the above gearing it should be noted that as at 31 March 2001, CTI had commitments for expenditure of $16.4 million.

7 CONCLUSION AND OPINION

The Education business consumes cash and the returns have yet to be proven, however, there is the potential for high returns. If contracts were signed and cash received from those contracts in the short term, and if CTI was able to fund the continued development of the Education business, then it would be worth considering CTI retaining the Education business.

Leadenhall's preliminary scenario valuation of the Education business is in the range of approximately $1.8 million to $3.0 million. This has the potential to decrease or increase significantly depending upon whether or not the Brunei and or Korea agreements proceed, or increase if new contracts are written and fulfilled. The effective consideration offered for the Education business (net of receivables and including liabilities assumed) is $5.1 million and could be higher depending on the outcome of the Cyber Communication arrangements. Accordingly, in our opinion the proposed transaction is fair.

In line with the definitions provided in Section 5.1, the proposed transaction is also reasonable because it is fair.

There are a number of considerations that shareholders should bear in mind in assessing this transaction and they are set out in the preceding section, Considerations as to Whether to Vote in Favour of a Sale.

Leadenhall believes the advantages to CTI in proceeding with the sale include:

- Certainty and early realisation of a profit on the sale of the Education business.
- Full value received for outstanding receivables that could be considered doubtful, in particular the receivable from Cyber Communication.
- Strengthening of CTI's Balance Sheet by eliminating secured debt of approximately $7.2 million (as at 31 March 2001).
- Relieving the burden of unsustainable expenditures.
- Providing upside gains from the Education business via a contingency payment should it be sold or listed for in excess of US$40.0 million within three years from the Completion date.

The disadvantage to CTI in proceeding with the sale is that it may be foregoing considerable upside potential should the Education business improve its operating performance, particularly if the Brunei and Korea contracts, and one additional contract, came to fruition. There is, however, considerable risk and uncertainty associated with the success of these contracts and thus the Education business as a whole.

Leadenhall considers the proposed transaction is fair and reasonable. In our opinion, it is in shareholders' interests to vote in favour of the sale of the Education business and the amounts receivable from two Asian customers.

For and on behalf of Leadenhall Australia Limited:

T O Lebbon
EXECUTIVE DIRECTOR

Holder of a proper authority from Leadenhall Australia Limited under Licensed Securities Dealer Number 10789.

Appendix A

Determination of Discount Rates

The selection of a discount rate (or rate of return) takes into account not only the time value of money but also the risk of projected earnings not being achieved and alternative investments available from a shareholder's perspective.

A benchmark rate of return often referred to is that of the All Ordinaries Accumulation Index ["AOAI"]

The compounded annual rate of return for the AOAI over the past twenty years has been 13.23% per annum. Over this period, inflation has averaged 5.06% per annum. The equivalent real rate of return for the AOAI thus equates to 7.78% per annum, calculated using the Fisher equation. (For the past ten year period, these figures are a 12.11% nominal AOAI return, 2.10% inflation rate and a 9.80% real AOAI return.)

An alternative calculation can be undertaken to cross check the above 20 year period real rate of return. Finance theory posits that an investment's rate of return is a function of the risk free rate of return (that available on Government debt) and the market risk premium (returns in excess of the risk free rate which compensate for the additional risk of the investment being analysed, relative to the risk free investment).

The 10 year Commonwealth Bond rate is commonly used as a surrogate for the risk free rate. This rate was 5.78% as at 30 April 2001.

Numerous studies have been undertaken into the size of the market risk premium for Australian equities. The Securities Institute of Australia's *Applied Valuation* subject of 2000 refers to such studies as:

6.0%	Irving (1991)
6.0%	Department of Finance (1991)
8.0%	Bowers and Ball (1988)
7.0% to 8.0%	Department of Finance (1987)
7.9%	Officer (1985)

An ACCC investigation in June 2000 applied a market risk premium of 6.0%. For the purpose of this calculation this rate has been assumed.

Using the above inputs, the prospective rate of return of a diversified portfolio of Australian equities can be calculated by applying the Capital Asset Pricing Model:

$$K_e = R_f + (\text{Beta x Market Risk Premium})$$

which yields a nominal rate of return of 11.78%. This translates to a real rate of return of 8.52% assuming an ongoing inflation rate of 3.00%, calculated using the Fisher equation.

The AOAI returns calculated above are representative of a diversified portfolio of equities. The above equation assumes that the asset being priced is subject to the same fluctuations and risks as the diversified market portfolio. In this instance, the asset is said to have a Beta factor of 1. A single investment in the Education business, however, lacks this diversity. A premium must also be applied to the real market rate of return to compensate for the additional business and geographic risks associated with the businesses, including its embryonic state.

A single investment in the Education business is also subject to liquidity and size risks. Liquidity refers to the ability to liquidate an investment as and when required. Size risk refers to the additional risks associated with smaller size businesses. Further premia must therefore be added to compensate for these risks.

Given these considerations, we have applied a post-tax real discount rate of 25% per annum. This approximates to a Beta factor of 3.2.

Appendix B

Qualifications, Declarations, Disclaimer and Consent

Qualifications

Leadenhall is an Adelaide based corporate advisory firm. Leadenhall is a licensed securities dealer (number 10789) under the Corporations Law.

Mr Tim Lebbon is the Executive Director of Leadenhall and the holder of a proper authority from Leadenhall. He has over thirty years' experience in accounting and consulting. Mr Lebbon is author of the major reference work, *Australian Valuation Handbook*. Professional memberships include: Fellow of the Securities Institute of Australia, Fellow of the Institute of Chartered Accountants in England and Wales, Fellow of the Australian Society of CPAs and he is a Certified Valuation Analyst (USA).

Other staff of Leadenhall, Mr Dan Taylor, Mr Derek Piper and Mr Philip Mann, assisted with the preparation of this IER.

Declarations

An associated entity of Leadenhall acquired shares and options in CTI in December 1999 and January 2000. All holdings were sold by end of January 2000.

Leadenhall and its associates currently own substantial shareholdings in business-to-business Ecommerce companies, specifically, the Australian Stock Exchange listed m2m Corporation Limited and the unlisted Strategic Ecommerce Limited.

Leadenhall does not have any interest in the outcome of the transactions proposed by CTI. Leadenhall is entitled to a fee for services rendered, estimated to be $35,000, based on time spent at normal hourly rates. The fee payable to Leadenhall is in no way dependent upon the outcome of the transactions.

Early drafts of sections 2 through 6 were submitted to management on 8 June 2001 and on 15 June 2001. A draft of this IER dated 22 June 2001 was submitted to the Directors of CTI for review of correctness with regards to factual information contained in the IER. No changes have been made to the valuation or our opinions as a result of that review.

As part of its terms of engagement, Leadenhall has been provided with an indemnity by CTI.

Disclaimer

Compilation and preparation of this document involved making judgements which may be affected by unforeseen future events including wars, economic disruption, dislocations, business cycles, industrial relations, labour difficulties, political action, changes of government and other factors, the effects of which are not capable of precise assessment. In many cases, value judgements must be made based on material compiled by government agencies, scientific organisations, research organisations, industrial, commercial and professional organisations and others.

Leadenhall will not be liable for any loss or damage caused to its client, or any other third party as a result of any errors in data which is either supplied by the client, supplied by a third party to Leadenhall, or which Leadenhall is required to estimate.

All surveys, forecasts, projections and recommendations contained or made in relation to or associated with this document are made in good faith and on the basis of information supplied to Leadenhall at the date of preparation. Achievement of the projections and budgets set out in this document will depend, among other things, on the actions of others over which Leadenhall has no control.

Leadenhall is not an expert in the field of taxation or law. Leadenhall shall not be liable for any loss, damages or penalties which may result from any failure to obtain independent taxation or legal advice.

This IER has not been prepared for any purpose other than to satisfy the requirements of the Australian Stock Exchange Listing Rule 10.10.2, namely to provide an opinion to ordinary shareholders with regards to the fairness and reasonableness of the proposed transactions for their consideration prior to voting on the transactions.

Consent

Neither the whole nor any parts of this document may be appended or referenced to in any documents without the prior written consent of Leadenhall.

Leadenhall consents to the inclusion of this IER, in the form and context in which it is included, in the Explanatory Memorandum to be issued to CTI shareholders in relation to the proposed transaction.

Appendix C

Sources of Information

In preparing this IER, Leadenhall has had access to:

- Discussions with the Chairman, Managing Director and members of management of CTI.
- Financial statements for CTI for the year ended 30 June 2000.
- Half year financial statements of CTI for the period ended 31 December 2000.
- Nine months' Management Accounts for the period ended 31 March 2001.
- Internal management reports.
- Board papers of CTI.

We have not undertaken an audit or verification of the data provided to us and have relied upon that data.