

QUOTE

"The company has done the hard yards in Australia. We now understand the market thoroughly and have put in the resources, including strategic sales capability, needed to lift revenue and margins. The new contract with Australia Post reflects our strategy of securing valuable long term relationships with large corporates, on that side of the Tasman ... In all areas, MTG will extend its offering of digital media-based solutions to clients' complex requirements. We expect that, over time, an increasing share of the business will be in content design, packaging and online fulfilment services that add value to our core CD and DVD replication activities."

Allan Morton, Chief Executive,
Interview - November 2004

FINANCIAL GUIDANCE

The company is likely to achieve revenues of approximately \$20m for the year to 31 March 2005, delivering EBITDA of around \$1.3m. From the next financial year onwards, we are confident of significant improvements in operating results based on profitable growth in Australia and continued satisfactory performance in the New Zealand business."

Phil Norman, Chairman - November 2004

PRICE PERFORMANCE

Returns	Gross	Relative*
One month	-16%	-21%
Three months	14%	4%
Six months	-39%	-55%

* Ordinary shares relative to the NZSX50 Gross as at 3 December 2004

MARKET DATA

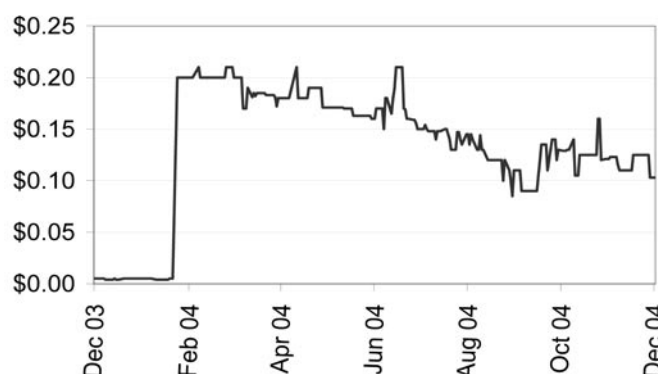
Market capitalisation:	\$8.8m
Issued capital:	85m Ords
Broker coverage:	None
Balance date:	31 March
6 month price range:	8.5 - 21 cents
Avg e mth volume last 6 months:	422,866 shares
Major shareholders:	
Allan Morton interests	68.2%
Chris Due interests	13.1%
Digital Disk Trustee	7.1%
Scott Gilmour interests	6.4%

KEY POINTS

- Media Technology Group (MTG) has a growth business in the supply of digital media (principally CDs/DVDs) and value-added services to corporate, business and public sector clients in New Zealand and Australia.
- The company's focus is increasingly on digital media-based solutions that meet its clients' complex needs in marketing, data storage and other business functions.
- MTG became a listed company in early 2004, after an established business was backed into former venture capital investor Strathmore Group.
- Recent half year results (to 30 September 2004) show EBITDA of \$573,000 on revenue of \$9.86m - comparison with Strathmore results in 2003 is not meaningful.
- The company is forecasting revenue of approximately \$20m for full year 2004-05, with an EBITDA result of \$1.3m - this is \$350,000 lower than a forecast given to the 2004 annual meeting (30 September).
- Business operations in New South Wales, Victoria and Queensland are at different stages of development - costs involved in positioning each for profitable growth are impacting on current year results.
- MTG is confident of revenue and earnings growth in Australia from the 2005-06 year onwards.
- A contract to supply Australia Post with a proprietary "mailer" for easy, cost effective postal distribution of CDs/DVDs (announced Nov 2004) is a major step forward in that market.
- EBITDA margin is expected to improve as MTG extends its solutions approach and grows revenues from services beyond the commodity-type replication of CDs/DVDs.
- Amortisation charges from Strathmore's acquisition of the business will continue impacting bottomline results.

...continued on page 2

12 MONTH SHARE PRICE PERFORMANCE



KEY POINTS continued...

- The working capital position was weak at 30 September 2004 (current liabilities 1.7 times current assets), although this largely reflected the inclusion in current liabilities of bank debt and shareholder loans.
- An injection of new capital is expected in the near future through private placements of shares with new investors.
- Such private placements should also substantially improve shareholding spread - currently four shareholders have 94.7% of MTG under a waiver from NZX spread requirements due to expire in January 2005.

SWOT ANALYSIS

Strengths

- Continued underlying growth in demand for CD/DVD products and services
- Established relationships with a range of blue chip clients
- Proven capabilities for delivery on challenging client requirements
- Established operating footprint in both Australia and New Zealand
- Experienced and knowledgeable Directors, management and staff

Weaknesses

- Working capital deficit
- Requirement for new equity to sustain and grow the business
- Very limited spread of shareholders—likely pressure from NZX

Opportunities

- Market opportunities to provide value-added services and solutions
- Growth earnings potential in Australia over the medium/longer term
- Likely stimulation of demand as rival online methods of data and other digital content transfer are constrained (eg email overload)
- Demand growth from the take-up of new digital devices (eg cameras, palm-top computers)

Threats

- Competitive pressure on revenues and margins in Australia
- Increased availability of cheap broadband for online data and content access over the medium/longer terms
- Long term, new technology may overtake the CD/DVD

Background

Media Technology Group Limited (MTG) emerged from long-listed Strathmore Group in January 2004. Strathmore had been operating as a venture capital investor in technology businesses for four years. Under the chairmanship of experienced business consultant and venture capital investor Phil Norman, the company sold all existing assets during 2002-03 and searched for an established business that could be backed into the Strathmore shell. It settled on Digital Disc Holdings Limited (DDH).

On 20 January 2004, Strathmore shareholders approved plans for the acquisition of DDH by way of a new share issue to the owners of that business, Allan Morton and Chris Due. In preparation for this, Strathmore went through a one-for-40 share consolidation of existing issued capital. The DDH acquisition saw Messrs Morton and Due take a 81.3% shareholding in Strathmore. The latter became Media Technology Group on 9 February, its only activities from then onwards being the businesses of the former DDH in New Zealand and Australia. The acquisition price on these businesses was \$8.67m, including \$6.84m in goodwill. Messrs Morton and Due effectively acquired their shares in the renamed listed company at 12c per share.

DDH was formed in 1989 as Software Images Limited, with a business replicating data on computer diskettes. Founder Allan Morton steadily increased sales, moved into the newer media of CD and DVD through the 1990s, and established the first CD manufacturing plant in New Zealand (1998). Expansion into Australia came in 2000 through DDH's acquisition of a complementary company that had been operating as Media Technology Pty Limited since 1981.

The businesses now grouped as MTG have grown with the widespread uptake of CDs and DVDs as digital media for storage and distribution of software and data in the business and government sectors of New Zealand and Australia. An independent adviser's report to Strathmore shareholders in December 2003 showed that DDH made EBITDA of \$1.07m on revenues of \$16.37m for the year ended 31 March 2003. Subsequent EBITDA of \$1.08m for the six months ended 30 September 2003 was significantly higher than an EBITDA number of \$573,000 for MTG in respect of the September 2004 half year (see page 4).

Messrs Morton and Due, Directors with long involvement in DDH, remain driving forces in development of the MTG business. They have support and guidance from the experienced Mr Norman on strategy and capital market relationships, and from fourth director Scott Gilmour, who has an extensive IT business sales and marketing background. The company has a stable core of experienced employees.

An employee share plan originated within DDH has become one of four substantial security holders, with a 7.1% shareholding. Ownership is heavily concentrated, with these

four (including three of the Directors) holding 94.7% of the company's issued shares. The balance is held by 2764 shareholders. In February 2004, the NZX gave MTG a waiver from shareholding spread requirements (Listing Rule 5.2.3) and this is due to expire in January 2005 unless an extension is obtained.

Business description

Media Technology Group (MTG) produces, packages and delivers digital media—CDs, DVDs, memory chips and diskettes—for a broad range of corporate, business and public sector clients in New Zealand and Australia. The company's principal activities are: the replication of software, data and other content on digital media; the development of software; the design and printing of packaging for CD/DVD distribution to support clients' marketing, data logistics and other needs; and physical distribution of digital media items including fulfilment of orders received online.

MTG has established relationships, involving substantial volumes of repeat business, with high profile clients in New Zealand and Australia that include: Hewlett Packard, Microsoft New Zealand, Telecom New Zealand, Sensis (Telstra directory service), Thomson Publishing, Lexus Nexus and Wilcom. The company has built a reputation for speed and reliability in its completion of orders, and for its ability to deliver on clients' complex requirements.

Increasingly, MTG looks to design and implement solutions that use digital media to meet clients' particular requirements for marketing, data logistics and a range of other functions. The solutions approach to doing business draws on MTG capabilities in software development, design, packaging and online fulfilment—all services of higher value to clients than the company's core activities in CD and DVD replication. Indeed, the latter has become a commodity type of business, with relatively low margins and significant competition from other suppliers.

MTG has a CD/DVD replication plant in Ponsonby, Auckland, adjacent to the company's head office. It has offices in Sydney, Brisbane and Melbourne, with replication facilities also in each centre.

At 30 September 2004, the company had total assets of \$11.44m, of which \$6.36m was goodwill on the DDH acquisition. Approximately 45% of total assets were in Australia. The company currently has more than 100 employees in both countries.

Of total revenue, approximately 60% is generated in Australia and this percentage is expected to continue increasing. MTG indicates a growing market presence in New South Wales, Victoria and Queensland, and claims the largest share of the New Zealand market for CD and DVD replication services to corporate, business and public sector clients.

Strategy

MTG plans to grow revenues by expanding its client base and volumes of repeat business from those clients. The company expects significant improvement in EBITDA margin by increasing the solutions component of its business and the sale of services which are of higher value than CD/DVD replication.

Under this strategy, MTG services become an integral part of clients' business processes and MTG becomes a trusted outsourcing partner. The company currently has elements of such a relationship with some large clients, notably Hewlett Packard and Wilcom.

MTG will continue its CD/DVD replication but also outsource some of these needs to other, more specialised suppliers. Volume growth in the company's products will add significant advantages in its buying arrangements with these suppliers, especially in Australia. The approach will help MTG limit future capital expenditure in the commodity production area of its business. On the other hand, management recognises a need to build more capabilities in the marketing and sale of solutions, in the design and production of digital media packaging and, ultimately, in the creation of valuable content.

The company looks to Australia for growth in revenues and margin over the medium and longer terms, as the Victoria and Queensland operations move beyond their establishment phases and the business acquired in New South Wales is positioned for growth. The current top priority within MTG is to achieve the optimum mix of services in each of Australia's regional markets, and improve margins through appropriate pricing and expense control.

Australia has better growth prospects than New Zealand because of its greater market size and concentration of larger clients with complex requirements. The company has made headway by winning several large contracts for supply of digital media products to government agencies, initially the Australian Taxation Office in 2001. MTG has endorsed supplier status with federal government agencies.

The new contract with Australia Post to supply a MTG-designed CD/DVD "mailer" is an important breakthrough in the consumer market. The mailer, approved for processing through high-speed mail sorting equipment, will be sold through AusPost's 4000 retail outlets as a cost-effective way of mailing discs safely. MTG has already demonstrated the value of this product in large government contracts. The AusPost contract is expected to contribute revenues from the March 2005 quarter.

MTG foresees sustained growth in demand for digital media and related services and solutions as organisations and individuals shift more and more of their communications and data storage onto CDs and DVDs. Market research indicates high levels of success in direct marketing campaigns that use

discs as well as hard copy material, delivered as conventional mail.

The company holds firm to a view that the CD/DVD will not be displaced by rapid expansion of online bandwidth—and that, in fact, these can drive demand for each other. MTG plans to further commercialise “smart discs” which combine the advantages of a CD and the internet: The disc automatically takes a user online to update and supplement content on the CD and share information with a host server. In addition, MTG sees increasing take-up of digital cameras, palm-top computers and other devices—including next generation DVD technology over the longer term—as continuing to stimulate demand for digital media.

Influences on profitability

Customer numbers and business volumes

The number of customers, the scale of their requirements and their levels of repeat business are critical revenue drivers. Of MTG’s total revenue currently, approximately 80% comes from around 250 customers and of these, 90% have a repeat business relationship with the company. The 250 can be divided into 75% corporate, 10% government agency and 15% entertainment sector (principally CD/DVD replication).

Higher margin services

Margins are higher on value-added services such as design and production of CD/DVD packaging and provision of fulfilment services. Margins are highest when these services are brought together as a solution to particular client needs. Replication of digital media products currently accounts for around 50% of total revenues, value-added services such as packaging and fulfilment 35% and solutions 15%.

Progress in Australia

Australia offers prospects for significant growth in the client base and in higher margin revenues. Progress will depend on strengthening the product and service offering, pricing and cost management.

Interest costs

Interest costs reflect the level of short-term borrowings, which increased slightly in the September 2004 half year. The addition of new equity could reverse this situation and limit interest costs in future periods.

Depreciation charges

Depreciation was a significant charge against September 2004 half year EBITDA (37%) and future levels will reflect capital expenditure—the company indicates future capex will be limited and linked to earnings growth.

Goodwill amortisation

Amortisation of goodwill on the company’s acquisition of DDH will continue to be a significant charge against EBITDA. The September 2004 balance sheet shows \$6.36m remaining to be amortised over 9 ½ years.

Half year results

MTG reported in November 2004 on its first six months (to 30 September) as a listed company operating the former business of Digital Disc Holdings (DDH).

- EBITDA of \$573,000—a margin of 5.8% on revenues of \$9.86m.
- The operating result was down from an EBITDA of \$1.08m in the former DDH business in the corresponding period of 2003 (disclosure in the adviser’s report of December 2003). The company reports that trading performance in the business was comparable between the two periods but the September 2004 half year included additional corporate compliance and management costs associated with the transition to a public listed company.
- MTG reported that revenues for the recent half year were marginally under budget due to a shortfall in Australia, which was partially offset by over-performance in New Zealand.
- EBITDA was under budget due to the impact on margins in Australia of re-organising the product mix in some areas and of positioning for future growth.
- Amortisation and depreciation costs (\$557,000) were the principal contributors to a bottomline loss of \$337,000 for the recent half year.
- At 30 September 2004, MTG had a working capital deficit of \$2.70m—a slight improvement from \$2.84m at 31 March.
- The working capital deficit included short-term borrowings, in part loans from shareholders, of \$2.45m which the company intends restructuring into long-term debt prior to the next balance date (31 March 2005).
- Total assets were funded 43.8% by equity at 30 September—equity was reduced by accumulated deficits of \$12.14m, most of these carried over from Strathmore.
- No meaningful comparison can be made with Strathmore results for the half year ended 30 September 2003 or for the eight month 2003-04 period to 31 March 2004 on which MTG reported in May 2004.

Directors

Phil Norman - Chairman

Phil Norman has over 30 years' experience in business development, investment and leadership, predominantly in the technology sector. He established and grew an Auckland-based packaged software business in the 1970s. After successful sale of this business to Paxus, he spent 15 years in senior management roles for various companies including Paxus, Microsoft New Zealand and Telecom New Zealand. In 1996 Mr Norman co-founded business advisory and venture capital firm Foresight Partners and three years later, rolled this business into Strathmore Group of which he became Executive Chairman. Mr Norman was Chairman of the New Zealand Venture Capital Association in 2002-03 and is currently a director of Cobalt Partners, a consultancy on business development, mergers and acquisitions and commercial litigation support.

Allan Morton - Managing Director

Allan Morton started Digital Disc Holdings (DDH) in 1992 as a two-person operation and has built the business rapidly since then, including expansion into Australia in 2000. He has established skills in operational management and team leadership, and strong technical knowledge of digital technology and business processes. Mr Morton began his career as an engineering cadet with Australia's CSR Limited, in which company he gained substantial experience over 16 years. He left CSR in 1986 as Engineering Manager, New Zealand, and then formed and developed various other businesses before establishing DDH. Mr Morton is active in organisations for developing New Zealand's information technology industry.

Chris Due - Director

Chris Due became a director of Digital Disc Holdings in 1998 after investing in the company at that time. He has an extensive background in accounting, mergers and acquisitions work, and general management. Mr Due's career started with Coopers & Lybrand in the early 1970s. He subsequently joined Fletcher Challenge and held various finance and management roles in that group before undertaking a management buy-out of Fletcher's fleet lease and finance business in 1989. Mr Due operated this business before selling in 1997. He now concentrates on the development and management of businesses within a private investment portfolio.

Scott Gilmour - Director

Scott Gilmour is an experienced technology executive and investor who joined the board of Media Technology Group in February 2004. His career began in sales with Burroughs in Christchurch in the late 1970s, and he subsequently spent 14 years in the United States, initially with NCR Corporation. Mr Gilmour joined Intel Corporation and held sales management roles, before returning to New Zealand in 1997 as Intel

General Manager here until 2001. His US experience also included co-founding a software company in Portland, Oregon, and chairing this until its sale to SAS. Mr Gilmour now concentrates on assisting business development and capital raising in various NZ technology companies.

Management

The Managing Director is supported by a competent senior management team with business unit managers at each location and centralised corporate services functions for marketing, IT and finance.

FINANCIAL PERFORMANCE			
NZ\$000	31/3/04*	31/7/03	31/7/02
Turnover	3,009	0	0
Other Income	341	1,349	1,193
Interest Received	1	0	6
Unusuals after Tax (neg=loss)	-2,243	0	-789
Profit before Charges	-2,227	-3,684	-3,880
Depreciation	72	0	37
Intangibles Amortisation	114	0	0
Profit before Interest	-2,413	-3,684	-3,917
Interest Expense	63	119	356
Profit before Tax	-2,476	-3,803	-4,273
Tax - Current	19	0	0
Tax - Deferred	0	0	0
Tax - Total	19	0	0
Minority Interests	0	0	0
NET PROFIT	-2,495	-3,803	-4,273
Equity of Associates	0	0	0
EQUITY NET PROFIT	-2,495	-3,803	-4,273
EQTY NET AFTER CNInt	-2,495	-3,803	-4,273
Extraordinary Items	0	0	0
EQY NET PFT AFTER EI	-2,495	-3,803	-4,273
REPORTED EARNINGS	-2,495	-3,803	-4,273
NORMALISED EARNINGS	-138	-3,803	-3,484
CASH EARNINGS	-2,309	-3,803	-4,236
Items Included -			
Provision For Write-downs	0	0	-789
Write-off of goodwill	-2,243	0	0

CASH FLOW			
NZ\$000	31/3/04	31/7/03	31/7/02
OPERATING ACTIVITIES			
Receipts from customers	2,850	80	165
Interest Received	1	0	6
Dividends Received	0	0	0
Payment to suppliers)	0	0	0
Payment to employees)	-3,176	-267	-1,656
Interest paid	-78	-27	-3
Income taxes paid	0	0	0
Other	-92	0	0
NET OPERATING CASH FLOWS	-495	-214	-1,488
INVESTING ACTIVITIES			
Sale of fixed asset	0	0	1
Sale of investments	0	12	1,115
Loans repaid	0	0	0
Other	0	0	0
Acqn of fixed assets	-66	0	0
Interest paid - cap	0	0	0
Acqn of investments	0	0	-72
Loans made	0	0	0
Other	30	70	0
NET INVESTING CASH FLOWS	-36	82	1,044
FINANCING ACTIVITIES			
Cash from shares	650	80	0
Borrowings	165	0	140
Repay Borrowings	-93	0	0
Dividends paid	0	0	0
Other	0	0	0
NET FINANCING CASH FLOWS	722	80	140
NET INCR/DECR IN CASH HELD	191	-52	-304
Cash at beginning	-101	-49	255
Exchange Rate Adj	280	0	0
CASH END OF PERIOD	370	-101	-49

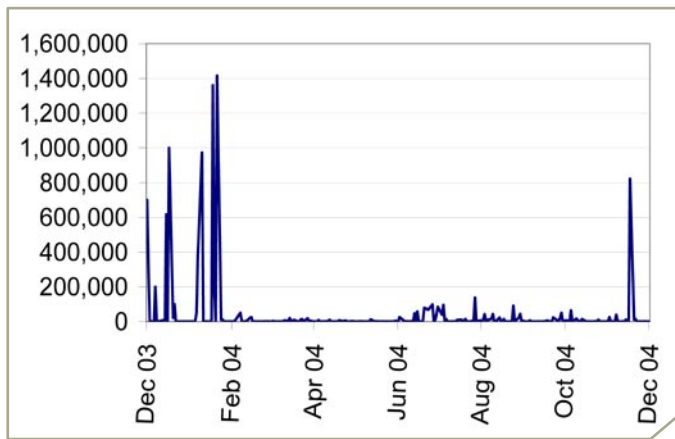
FINANCIAL POSITION			
NZ\$000	31/3/04	31/7/03	31/7/02
EQUITY			
Share Capital	17,371	8,460	8,380
Mandatory Notes	0	0	0
Paid Pref Capital	0	0	0
Reserves -	0	0	0
Share Premium	0	0	0
Revaluation	0	0	0
Other	-174	0	0
Revenue	-11,804	-9,309	-5,506
SH/DERS' EQUITY	5,393	-849	2,874
OTHER EQUITY FUNDS	0	0	0
Convertible Securities	0	0	0
Subordinated Debt	0	0	0
Minority Interests	0	0	0
Other	0	0	0
TOTAL EQUITY	5,393	-849	2,874
LIABILITIES - Non Current			
Capital Notes	0	0	0
Mortgages & Loans	0	0	0
Debentures	0	0	0
Other	0	0	0
NON CURRENT LIABILITIES	0	0	0
LIABILITIES - Current	0	0	0
Bank Overdraft	0	105	53
Creditors etc	3,214	533	189
Provisions	672	137	148
Other	2,410	140	1,314
CURRENT LIABILITIES	6,296	915	1,704
Other			
Deferred Tax	0	0	0
Misc Provisions	0	0	0
EQUITY & LIABILITIES	11,689	66	4,578
Amount Unpaid on Shares	0	0	0
ASSETS - Fixed			
Land	0	0	0
Buildings	401	0	0
Plant and Vehicles	717	0	0
Work in Progress	0	0	0
Other	382	0	0
FIXED ASSETS	1,500	0	0
ASSETS - Current	0	0	0
Cash and Deposits	370	4	4
Debtors	2,658	62	13
Inventory	410	0	0
Other	19	0	2,015
CURRENT ASSETS	3,457	66	2,032
Investments			
Associated Coys	0	0	0
Shares	0	0	2,546
Property	0	0	0
Advances	0	0	0
Other	0	0	0
INVESTMENTS	0	0	2,546
Other	0	0	0
Future Tax	0	0	0
Intangibles	6,732	0	0
TOTAL ASSETS	11,689	66	4,578

* 8 mths ending 31/3/04 (source: MTG Annual Report)

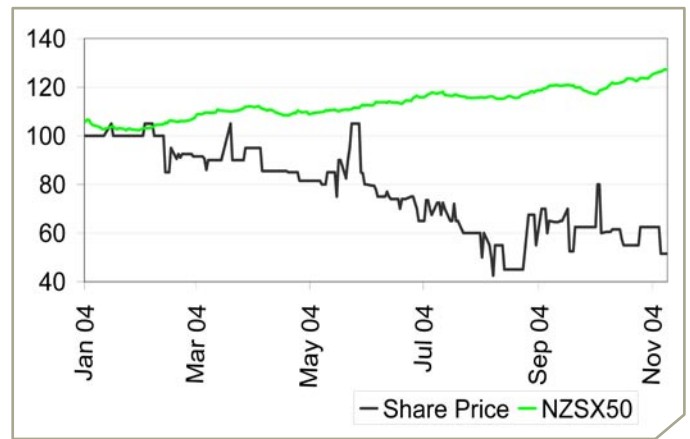
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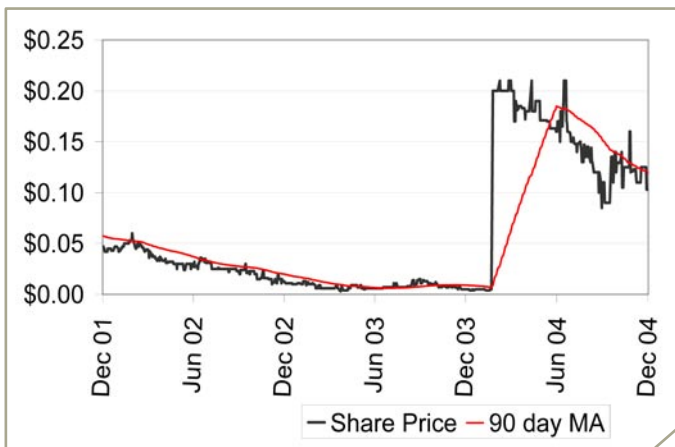
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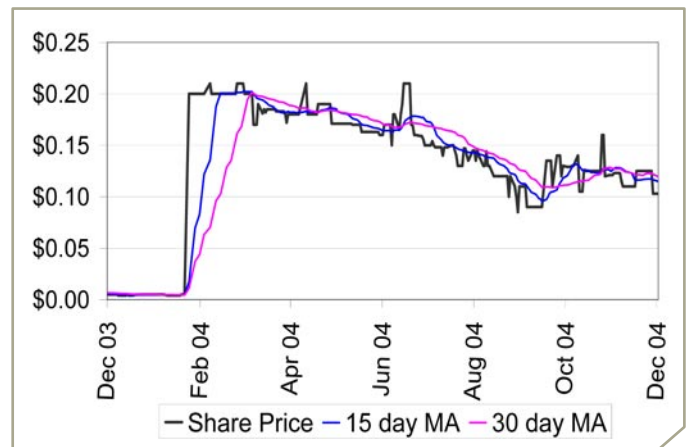
Volumes traded last 12 months



Relative performance against NZSX50 since 26/01/04



Share price performance last 3 years



15 and 30 day moving average last 12 months

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