FRONDE

Summary Financial Report 2008

Contents

Chairman's Report
June 2008

Improving Financial Result

In the second 6 months of the year ended 31 March 2008, Fronde Systems Group achieved a substantial turnaround and recorded a profit after tax of $785k. This reflected the immediate impact of restructuring the business which commenced in October. The second six month profit compares with a $2.87m loss for the first 6 month period. The full year result was a loss of $2.08m.

The Fronde New Zealand businesses recorded a profit after tax of $383k for the year, reinforcing the importance and value of our local business. This performance underpins the revised strategic direction adopted by the Board.

In this Chairman's Report and the CEO Operational Report we describe the changes the Board and management have made to the business to achieve this second six month turn-around and put the business on a path of sustainable profitability and cash flow. This strategy was first described in the half year result report.

Consistent with the annual trading loss, the Group also experienced reduced cash flow. There were lower than expected cash receipts in New Zealand and the UK arising from lower trading, combined with high debtors and work-in-progress balances, and ongoing investment in Fronde Anywhere. Debtors were high at year end due to the invoicing of a very large work-in-progress balance immediately prior to balance date. This was receivable early in the current financial year.

Since my Chairman's Report for the first 6 months of the year, we have continued to work closely with our bankers and, while our previous breach has not been waived, we are making steady progress towards achieving the objective of complying with existing bank covenants in this current financial year.

On behalf of Shareholders I would like to thank our bank, ANZ National, for their ongoing support during this period of restructuring our business.

Strategy Review

Over the last few months, the company vision has been refined to one of becoming 'New Zealand's trusted thought leader in business technology solutions'. Other than Fronde Anywhere, our business is focussed on New Zealand-based delivery to largely New Zealand clients. Our markets are well established in New Zealand with strong customer relationships and growth.

We have reviewed our brands and simplified our market positioning. Our re-focus on New Zealand has allowed us to further reduce overhead costs and become more nimble. Our business recovery strategy is to grow our bottom line first by focusing on improved margins and cost control. We made considerable progress on this in the second half of the 2008 financial year and we are continuing this focus. We are now also growing our revenue by adding new customers, further developing and increasing the range of the services we offer, and by focussing very closely on a continuing high level of quality delivery.

Fronde Anywhere

We are actively pursuing a sell-down of our stake in Fronde Anywhere. This is a continuation of the strategy commenced last year when this business was established as a separate company for the specific purpose of bringing in additional shareholder and capital. The injection of additional capital will ensure that Fronde Anywhere has adequate funding to meet its business goals and will not require further funding from the Group. We expect Fronde Anywhere to be cashflow neutral to the Group during this financial year until the point at which new investment can be secured. This is under active consideration.

Chairman's Report continued

Governance

Your Board took great pleasure in appointing Ian Clarke to the position of CEO, effective from March this year. During the last 6 months of working with the management team to execute the recovery plan, it became clear that the Group had the talent within its management to fill the vacant CEO position. The Board saw the improvements made while Ian was Acting CEO and is seeing further improvements following his appointment as CEO. The Board is confident it has made the right decision. As Ian comments in his report, the organisation is now lean and poised to capture market opportunities that will arise.

The Board would particularly like to thank Ian and the management team for their work in faithfully carrying out the recovery plan and achieving the turnaround in financial results.

Dividends

Your Directors have recommended that no dividend be paid.

Philip Shewell
Chairman

Chief Executive's Report
June 2008

Recovery Plan

The key circumstances that generated a requirement for a recovery plan in October last year were excess capacity, an insufficient sales pipeline and excessive corporate services spending relative to sales. This was exacerbated by the need for high levels of investment in Fronde Anywhere and other parts of the Group, and very high levels of work-in-progress relating to one project.

The recovery plan required some downsizing and very close attention to costs. We have worked very closely with our bankers as we improve our cash flow. During the last 6 months we have emerged as a very lean and effective organisation that is well placed both to withstand any downturn occurring as a result of the global credit crunch or local circumstances driven by the election year. By virtue of our leanness and focus we are also very well placed to capture opportunities that we uncover.

Under the recovery plan, we reviewed the Fronde Always brand and determined that it would be better to differentiate our business with a narrower range of services delivered to clients under the Fronde brand. We have ceased using the Fronde Always brand and that part of the business is now known as Technology Solutions. Its services are provided to clients integrated into the Fronde client teams. This is part of our drive to simplify the business. Rob Old recently assumed leadership of this area of our business.

We have down-sized and simplified our Corporate Services area by reducing a number of roles. During the year we recruited a new Finance Manager, Vicky Donaldson, who is simplifying the financial structures and processes of Fronde.

I retain direct responsibility for the Wellington business as part of the CEO role, removing the requirement to fill my vacated General Manager role in Wellington. Mark Young has taken on responsibility for operations in this market.

The business strategy for our UK business is focussed around Agile project management consulting. This discipline is a core offering in our New Zealand business and the UK operation is a centre of excellence feeding skills and experience back to New Zealand. The business is rebuilding as it effectively restarted in October 2007 with the appointment of a replacement General Manager, Dominic Stow.

Core Business Operational Performance

Our core professional services business in New Zealand consistently improved performance during the second six months of the past year, particularly the business based in Wellington. Interruption to a number of work streams that were caused by clients' internal restructuring was largely resolved prior to Christmas, and there was steady demand from existing and new customers.

Our Auckland business recovered well in the second part of the year after significant over-capacity issues early in the year. In particular we secured a number of new clients and made substantial progress establishing the Fronde brand in Auckland. We finished the year with this business in good shape for profitability in the current year.

The Wellington business continued to lock in the benefits of our customer-intimate strategy, working closely with clients through our client teams. We had significant wins from existing clients as well as very exciting new clients won. Solid support was provided to Fronde Anywhere, particularly in delivering a large project to a client based in South Africa secured by Fronde Anywhere.

Technology Solutions, which was Fronde Always, provided strong support internally and made great progress providing reliability for customers of Message Direct, our SMS gateway. This service now carries one million messages a month and is very important to the operations of a number of our clients.

Chief Executive's Report continued

Fronde Anywhere

Fronde Anywhere, our mobile payments business, has performed well in terms of building a sales pipeline and securing distribution partners. During the year it secured $1m of revenue from a zero base in April 2007. This revenue has come from New Zealand, France, the Philippines and South Africa.

In the latter part of the year Caroline Dewe took on the role of CEO for this subsidiary.

The Board is executing a plan to secure capital funding for this business and move it to the next phase of its international expansion. The intention is that this will remove the need for development funding by the Fronde Systems Group.

The Next Phase: Simplicity, Focus, and Teamwork

The business plan for the current year is dominated by our financial goals of bottom line growth and strengthening the balance sheet, a client goal of adding 10 new customers and a team goal of reducing staff turnover. The themes for the year are Simplicity, Focus and Teamwork.

The Simplicity theme is centred on reducing or eliminating effort to support business processes, simplifying our organisation and company structure, creating greater clarity in company policies and ensuring delegations work. Partners, staff and clients will see less noise and more seamless interactions with Fronde.

The Focus theme is centred on creating a common purpose for our staff, a direction we can all work toward. Creation of this focus has commenced with clarity of our vision and purpose, and refinement of our strategy. Our clients will be able to easily understand what they can expect from us and where we are taking the business.

The Teamwork theme is centred on improving the way in which our businesses work together, share IP and share resources. Our clients will be offered a greater breadth and depth of service from within the wider company. Our staff will have more support and a wider range of work opportunities.

I would like to thank the Fronde team, our partner community and our clients for their support and contributions over the last year.

I A Clarke

Ian Clarke
CEO

Audit Report

For the year ended 31 March 2008

Deloitte.

AUDIT REPORT TO THE SHAREHOLDERS OF FRONDE SYSTEMS GROUP LIMITED AND GROUP

We have audited the summary financial statements of Fronde Systems Group Limited and Group for the year ended 31 March 2008 as set out on pages 6 to 21.

This report is made solely to the company's shareholders as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation of summary financial statements, in accordance with New Zealand law and generally accepted accounting practice.

Auditor's Responsibilities

It is our responsibility to express to you an independent opinion on the summary financial statements.

Basis of Opinion

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed procedures to ensure the summary financial statements are consistent with the full financial statements on which the summary report is based. We also evaluated the overall adequacy of the presentation of information in the summary financial statements against the requirements of FRS-43: *Summary Financial Statements*.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in Fronde Systems Group Limited or any of its subsidiaries or its associate.

Unqualified Opinion

In our opinion, the information reported in the summary financial statements complies with FRS-43: *Summary Financial Statements* and is consistent with the full financial statements from which it is derived and upon which we expressed an unqualified audit opinion in our report to the shareholders dated 27 June 2008.

For a better understanding of the scope of our audit of Fronde Systems Group Limited and Group's financial statements and of Fronde Systems Group Limited and Group's financial position, financial performance and cash flows for the year ended 31 March 2008, this report should be read in conjunction with Fronde Systems Group Limited and Group's audited financial statements for that period.

Our examination of the summary financial statements was completed on 27 June 2008 and our unqualified opinion is expressed as at that date.

Deloitte

CHARTERED ACCOUNTANTS
WELLINGTON, NEW ZEALAND

This audit report relates to the summary financial statements of for the year ended 31 March 2008 included on Fronde System Group Limited's website. Fronde System Group Limited's governing body is responsible for the maintenance and integrity of Fronde System Group Limited's website. We have not been engaged to report on the integrity of Fronde System Group Limited's website. We accept no responsibility for any changes that may have occurred to the summary financial statements since they were initially presented on the website. The audit report refers only to the summary financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these summary financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited summary financial statements and related audit report dated 27 June 2008 to confirm the information included in the audited summary financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements and summary financial statements may differ from legislation in other jurisdictions.

Income Statement

For the year ended 31 March 2008

	Group 2008 $000	Group 2007 $000	Parent 2008 $000	Parent 2007 $000
Revenue	31,775	33,343	31,301	30,683
Cost of sales	(24,303)	(24,046)	(23,447)	(22,339)
Gross profit	**7,472**	**9,297**	**7,854**	**8,344**
Other income	566	(21)	(21)	1,222
Development expenses	(61)	–	(145)	–
Marketing expenses	(2,229)	(2,152)	(1,811)	(1,814)
Occupancy expenses	(1,239)	(620)	(756)	(614)
Administration expenses	(6,093)	(6,239)	(4,325)	(5,429)
Finance costs	(465)	(51)	(453)	(51)
(Loss)/Profit before income tax expense	**(2,049)**	**214**	**343**	**1,658**
Income tax expense	(34)	(117)	40	3
(Loss)/Profit for the period	**(2,083)**	**97**	**383**	**1,661**
(Loss)/Profit attributable to				
Minority interest	–	161		
Members of the parent entitiy	(2,083)	(64)		
	(2,083)	**97**		
(Loss)/Earnings per share				
Basic and diluted (cents per share)	(0.30)	0.01		

The notes on pages 11 to 21 form part of these financial statements.
A copy of the full financial report can be obtained from Fronde's registered office.

FRONDE

Balance Sheet

As at 31 March 2008

	Note	Group 2008 $000	Group 2007 $000	Parent 2008 $000	Parent 2007 $000
Current Assets					
Trade and other receivables		5,928	6,318	6,045	6,629
Current tax assets		619	586	619	698
Other current assets		433	754	1,484	772
Total Current Assets		**6,980**	**7,658**	**8,148**	**8,099**
Non-Current Assets					
Property, plant and equipment		1,273	1,723	1,253	1,696
Deferred tax asset		176	177	176	177
Other financial assets		–	–	2,959	2,459
Goodwill		–	297	–	–
Other intangibles assets		1,254	956	148	271
Total Non-Current Assets		**2,703**	**3,153**	**4,536**	**4,603**
Total Assets		**9,683**	**10,811**	**12,684**	**12,702**
Current Liabilities					
Trade and other payables		3,117	4,281	2,835	4,233
Current borrowings	3	3,731	1,463	3,750	2,040
Provisions		570	591	489	523
Other current liabilities		100	343	100	302
Total Current Liabilities		**7,518**	**6,678**	**7,174**	**7,098**
Non-Current Liabilities					
Deferred tax liability		65	174	65	174
Other non-current liabilities		535	–	–	–
Total Non-Current Liabilities		**600**	**174**	**65**	**174**
Total Liabilities		**8,118**	**6,852**	**7,239**	**7,272**
Net Assets		**1,565**	**3,959**	**5,445**	**5,430**
Equity					
Issued share capital		4,908	4,908	4,908	4,908
Retained earnings		(3,280)	(917)	537	522
Foreign currency translation reserve		(63)	(32)	–	–
Total Equity		**1,565**	**3,959**	**5,445**	**5,430**
Total Equity and Liabilities		**9,683**	**10,811**	**12,684**	**12,702**

For and on behalf of the Board on 27 June 2008.

P M Shewell
Chairman

R Bettle
Director

The notes on pages 11 to 21 form part of these financial statements.
A copy of the full financial report can be obtained from Fronde's registered office.

Statement of Changes in Equity

For the year ended 31 March 2008

Group	Share Capital $000	Retained Earnings $000	Foreign Currency Translation Reserve $000	Minority Interest $000	Total $000
Balance at 1 April 2006	**4,908**	**(573)**	**(84)**	**124**	**4,375**
Movement in foreign currency translation reserve	–	–	52	–	52
Change in minority interest	–	–	–	(124)	(124)
Profit on ordinary activities after taxation	–	180	–	–	180
Total recognised income and expense for the period	**–**	**180**	**52**	**(124)**	**108**
Dividend paid	–	(280)	–	–	(280)
Balance at 31 March 2007	**4,908**	**(673)**	**(32)**	**–**	**4,203**
Correction to prior year equity	–	(244)	–	–	(244)
Restated balance	**4,908**	**(917)**	**(32)**	**–**	**3,959**
Movement in foreign currency translation reserve	–	–	(31)	–	(31)
Profit on ordinary activities after taxation	–	(2,083)	–	–	(2,083)
Total recognised income and expense for the period	**–**	**(2,083)**	**(31)**	**–**	**(2,114)**
Dividend paid	–	(280)	–	–	(280)
Balance at 31 March 2008	**4,908**	**(3,280)**	**(63)**	**–**	**1,565**

A prior period adjustment has been identified in the Singaporean subsidiary (refer note 2).

The notes on pages 11 to 21 form part of these financial statements.

A copy of the full financial report can be obtained from Fronde's registered office.

Statement of Changes in Equity continued

For the year ended 31 March 2008

Parent	Share Capital $000	Retained Earnings $000	Total $000
Balance at 1 April 2006	**4,908**	**(859)**	**4,049**
Profit on ordinary activities after taxation	–	1,661	1,661
Total recognised income and expense for the period	**–**	**1,661**	**1,661**
Dividend paid	–	(280)	(280)
Balance at 31 March 2007	**4,908**	**522**	**5,430**
Correction to prior year equity	–	(88)	(88)
Restated balance	**4,908**	**434**	**5,342**
Profit on ordinary activities after taxation	–	383	383
Total recognised income and expense for the period	**–**	**383**	**383**
Dividend paid	–	(280)	(280)
Balance at 31 March 2008	**4,908**	**537**	**5,445**

The correction to prior year equity relates to the transfer of a platform development intangible asset valued at $88,095 from the Parent to Fronde Anywhere Limited (a fully owned subsidiary). The platform development should have been included as part of the assets sold to Fronde Anywhere Limited on 31 March 2007. The transfer of the platform development to Fronde Anywhere Limited was approved by the Board of Directors on 31 January 2008.

The notes on pages 11 to 21 form part of these financial statements.
A copy of the full financial report can be obtained from Fronde's registered office.

Cash Flow Statement

For the year ended 31 March 2008

	Note	Group 2008 $000	Group 2007 $000	Parent 2008 $000	Parent 2007 $000
Cash flows from operating activities					
Receipts from customers		33,228	33,055	31,664	28,719
Dividends from subsidiaries		–	–	–	293
Interest received		22	40	18	23
Payments to suppliers and employees		(33,793)	(32,902)	(30,961)	(29,954)
Interest and other costs of finance paid		(465)	(51)	(453)	(51)
Income tax (paid)/received		(175)	(419)	11	(115)
Net cash (used in)/provided by operating activities	**5**	**(1,183)**	**(277)**	**279**	**(1,085)**
Cash flows from investing activities					
Amounts advanced to related parties		–	–	(1,366)	(969)
Payment for Property, Plant and Equipment		(392)	(685)	(380)	(663)
Proceeds from sale of Property, Plant and Equipment		22	14	22	26
Payment for intangible assets		(44)	(269)	(4)	(269)
Proceeds from sale of intangible assets		–	194	91	879
Development costs paid		(391)	(731)	(72)	(731)
Payment for business		–	(297)	–	–
Net cash used in investing activities		**(805)**	**(1,774)**	**(1,709)**	**(1,727)**
Cash flows from financing activities					
Dividends paid: members of parent entity		(280)	(280)	(280)	(280)
minority interests		–	(285)	–	–
Net cash used in financing activities		**(280)**	**(565)**	**(280)**	**(280)**
Net decrease in cash and cash equivalents		(2,268)	(2,616)	(1,710)	(3,092)
Cash and cash equivalents at the beginning of the year		**(1,463)**	**1,153**	**(2,040)**	**1,052**
Cash and cash equivalents at the end of the year		**(3,731)**	**(1,463)**	**(3,750)**	**(2,040)**

The notes on pages 11 to 21 form part of these financial statements.
A copy of the full financial report can be obtained from Fronde's registered office.

Notes to the Financial Statements

For the year ended 31 March 2008

1. Statement of accounting policies

Statement of Compliance

Fronde Systems Group Limited's (the 'Parent') principal activities are the provision of business consulting services, the development of computer software and the provision of software and network managed services. The Parent is incorporated and domiciled in New Zealand with the registered address at 3 Queens Wharf, Wellington.

The Parent is registered under the Companies Act 1993. The Parent was incorporated on 24 January 1992 and its company number is 528567. The Parent is an issuer for the purposes of the Financial Reporting Act 1993.

The Parent and its subsidiaries comprise the Fronde Systems Group (the 'Group'). The Parent is not an 'exempt company' under the Companies Act 1993.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit-oriented entities.

Compliance with NZ IFRS ensures that the consolidated financial statements comply with International Financial Reporting Standards (IFRS). The parent entity financial statements also comply with IFRS.

These consolidated financial statements are for the year ended 31 March 2008 and have been approved for issue by the Board of Directors on 27 June 2008.

Basis of Preparation

The summary financial report has been prepared in accordance with Financial Reporting Standards FRS-43 '*Summary Financial Reports'.*

The information contained in this summary financial report has been extracted from the full financial report authorised for issue by the Board of Directors on 27 June 2008. The summary financial report does not provide complete information and should be read in conjunction with the full financial report.

The full financial report has been audited and an unqualified opinion has been expressed.

The Group changed its accounting policies on 1 April 2007 to comply with NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS-1 *'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards'*, with 1 April 2006 as the date of transition. An explanation of how the transition from superseded policies to NZ IFRS has affected the Company's and Group's balance sheet, income statement and cash flows is discussed in note 6.

The accounting policies set out in the full financial statements have been applied in preparing the financial statements for the year ended 31 March 2008, the comparative information presented in these financial statements for the year ended 31 March 2007, in the preparation of the opening NZ IFRS balance sheet at 1 April 2006 (as disclosed in note 6), and the Group's date of transition.

2. Comparative Information

a. Prior period restatement

The Group's income statement for the year ended 31 March 2007 has been restated to enhance comparability of the information against the income statement for the current year. The restatements were made to reflect the way the business is currently managed. The restatements below were made under NZ GAAP; refer to note 6 for the impact of adopting NZ IFRS.

	Group Previously reported $000	Group Restated amounts $000	Group Total $000
Revenue	33,162	425	33,587
Cost of sales	(25,132)	1,084	(24,048)
Gross profit	**8,030**	**1,509**	**9,539**
Other income	145	(166)	(21)
Marketing expenses	(2,152)	–	(2,152)
Occupancy expenses	(559)	(67)	(626)
Administration expenses	(4,929)	(1,276)	(6,205)
Finance costs	(51)	–	(51)
Profit before income tax expense	**484**	**–**	**484**
Income tax expense	(120)	–	(120)
Profit for the period	**364**	**–**	**364**
Profit attributable to:			
Minority interest	161	–	161
Members of the parent entitiy	203	–	203
	364	**–**	**364**

Notes to the Financial Statements continued

For the year ended 31 March 2008

b. Prior period adjustment

A prior period misstatement has been identified relating to the work in progress recorded in the Singaporean subsidiary. The work in progress balance previously reported as income has been reversed completely to correct the misstatement in the prior period.

Effect on the income statement for the financial year ended 31 March 2007

	Group Restated $000	Group Prior period adjustment $000	Group Final restated amounts $000
Revenue	33,587	(244)	33,343
Cost of sales	(24,048)	–	(24,048)
Gross profit	**9,539**	**(244)**	**9,295**
Other income	(21)	–	(21)
Marketing expenses	(2,152)	–	(2,152)
Occupancy expenses	(626)	–	(626)
Administration expenses	(6,205)	–	(6,205)
Finance costs	(51)	–	(51)
Profit before income tax expense	**484**	**(244)**	**240**
Income tax expense	(120)	–	(120)
Profit for the period	**364**	**(244)**	**120**
Profit attributable to:			
Minority interest	161	–	161
Members of the parent entitiy	203	(244)	(41)
	364	**(244)**	**120**

Notes to the Financial Statements continued

For the year ended 31 March 2008

Effect on the balance sheet as at 31 March 2007

	Group Restated $000	Group Prior period adjustment $000	Group Final restated amounts $000
Current Assets			
Trade and other receivables	6,337	–	6,337
Current tax assets	586	–	586
Other current assets	987	(233)	754
Total Current Assets	**7,910**	**(233)**	**7,677**
Non-Current Assets			
Property, plant and equipment	1,948	–	1,948
Deferred tax asset	–	–	–
Other financial assets	–	–	–
Goodwill	291	–	291
Other intangibles assets	731	–	731
Total Non-Current Assets	**2,970**	**–**	**2,970**
Total Assets	**10,880**	**(233)**	**10,647**
Current Liabilities			
Trade and other payables	4,645	–	4,645
Current borrowings	1,463	–	1,463
Provisions	557	–	557
Other current liabilities	–	–	–
Total Current Liabilities	**6,665**	**–**	**6,665**
Total Liabilities	**6,665**	**–**	**6,665**
Equity			
Issued share capital	4,908	–	4,908
Retained earnings	(650)	(244)	(894)
Foreign currency translation reserve	(43)	11	(32)
Total Equity	**4,215**	**(233)**	**3,982**
Total Equity and Liabilities	**10,880**	**(233)**	**10,647**

Notes to the Financial Statements continued

For the year ended 31 March 2008

3. Current Borrowings

	Group 2008 $000	Group 2007 $000	**Parent 2008 $000**	Parent 2007 $000
Secured				
Current				
Bank overdraft	3,731	1,463	3,750	2,040
	3,731	**1,463**	**3,750**	**2,040**
Disclosed in the financial statements as:				
Current borrowings	3,731	1,463	3,750	2,040
	3,731	**1,463**	**3,750**	**2,040**

The bank overdraft facility is on demand and secured by a debenture over all the assets and undertakings of the Group. The overdraft attracts a market interest rate. The Group and Parent do not hold any unsecured current borrowings.

As the bank overdraft facility is on demand, the Parent is not being held to its bank covenants. Nevertheless, these are disclosed below for completeness:

	Covenant	**Parent**	**Breached**
Gearing Ratio	0.75	(0.95)	Yes
Interest Cover	3	(3.30)	Yes
Total Equity	2,500,000	1,846,916	Yes
Contingent Liabilities	0.15	0.08	No

4. Contingent Liabilities and Contingent Assets

	Group 2008 $000	Group 2007 $000	**Parent 2008 $000**	Parent 2007 $000
Lease guarantees (i)	137	173	137	173
Likley reimbursement (ii)	(137)	(173)	(137)	(173)
Rent arbitration (iii)	78	44	78	44
Bank guarantee (iv)	420	420	420	420
	498	**464**	**498**	**464**

(i) The Parent has guaranteed the unexpired term of the operating lease for the Vodafone on the Quay (formerly Mobil on the Park), Wellington Office. The guarantee is for a maximum of $350,000 based on the hard fit-out cost of the offices. The term of the guarantee is for 10 years, with the liability diminishing on the anniversary of the lease in December of each year.

(ii) The guarantee by the Parent has been included in sub-lease agreements so as to pass on the ultimate burden of liability to the sub-lessors. The Directors believe that if the Parent ever defaults on its lease, it will be able to recover the guaranteed amounts from the sub-lessors.

(iii) On 1 December 2005, the rent for Vodafone on the Quay was increased. The Parent paid its share of the rent increase and passed on the remainder to the sub-lessees. The sub-lessees did not agree with this treatment. The Parent is therefore involved in on-going arbitration with the sub-lessees to share the burden of the higher rent. If the arbitrations are unsuccessful, the Parent will be liable for the sub-lessees share of the rent.

(iv) On 10 July 2001, the Parent entered into a bank guarantee agreement with the ANZ Banking Group (New Zealand) Ltd (ANZ). ANZ has agreed unconditionally to pay Queens Wharf Holdings Ltd any sum or sums requested in writing to an amount not exceeding $420,000. No such requests had been made at balance date.

There were no contingent assets as at the reporting date.

Notes to the Financial Statements continued

For the year ended 31 March 2008

5. Notes to the Cash Flow Statement

Reconciliation of profit for the period to net cash flows from operating activities

	Group 2008 $000	Group 2007 $000	**Parent 2008 $000**	Parent 2007 $000
(Loss)/profit after tax for the period	(2,083)	97	383	1,661
(Gain)/loss on sale or disposal of non-current assets	(1)	12	(1)	(1,147)
Depreciation and amortisation of non-current assets	958	857	910	848
Impairment of goodwill	297	–	–	–
Foreign exchange (gain)/loss	(31)	51	–	–
Doubtful debts	33	(29)	33	(29)
(Decrease)/increase in current tax balances	(33)	(299)	79	(115)
Decrease in deferred tax balances	(108)	(3)	(108)	(3)
Changes in net assets and liabilities:				
Decrease/(increase) in assets:				
Current receivables	357	1,498	320	(1,166)
Other current assets	321	(171)	297	(304)
(Decrease)/increase in liabilities:				
Current payables	(1,164)	1,789	(1,398)	2,651
Current provisions	(21)	(2,668)	(34)	(2,091)
Other current liabilities	(243)	(1,411)	(202)	(1,390)
Other non-current liabilities	535	–	–	–
Net cash from operating activities	**(1,183)**	**(277)**	**279**	**(1,085)**

Notes to the Financial Statements continued

For the year ended 31 March 2008

6. Impacts of the Adoption of New Zealand Equivalents to International Financial Reporting Standards

The Group changed its accounting policies on 1 April 2007 to comply with NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS-1 '*First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*', with 1 April 2006 as the date of transition.

An explanation of how the transition from superseded policies to NZ IFRS has affected the Parent and Group's balance sheet, income statement and cash flows is set out in the following tables and the notes that accompany the tables.

Effect of NZ IFRS on the balance sheet as at 1 April 2006

	Note	Group Superseded polices* $000	Group Effect of transition to NZ IFRS $000	Group NZ IFRS $000	Parent Superseded policies* $000	Parent Effect of transition to NZ IFRS $000	Parent NZ IFRS $000
Current Assets							
Cash and cash equivalents		1,153	–	1,153	1,052	–	1,052
Trade and other receivables		7,787	–	7,787	5,831	–	5,831
Current tax assets		287	–	287	583	–	583
Other current assets		583	–	583	385	–	385
Total Current Assets		**9,810**	**–**	**9,810**	**7,851**	**–**	**7,851**
Non-Current Assets							
Property, plant and equipment		2,071	(92)	1,979	2,057	(92)	1,965
Deferred tax assets	b	–	15	15	–	15	15
Other financial assets		–	–	–	29	–	29
Other intangible assets		–	92	92	–	92	92
Total Non-Current Assets		**2,071**	**15**	**2,086**	**2,086**	**15**	**2,101**
Total Assets		**11,881**	**15**	**11,896**	**9,937**	**15**	**9,952**
Current Liabilities							
Trade and other payables		5,251	–	5,251	3,734	–	3,734
Provisions		500	–	500	461	–	461
Other current liabilities		1,754	–	1,754	1,693	–	1,693
Total Current Liabilities		**7,505**	**–**	**7,505**	**5,888**	**–**	**5,888**
Total Liabilities		**7,505**	**–**	**7,505**	**5,888**	**–**	**5,888**
Equity							
Issued share capital		4,908	–	4,908	4,908	–	4,908
Retained earnings	c	(572)	15	(557)	(859)	15	(844)
Foreign currency translation reserve		(84)	–	(84)	–	–	–
Minority interests		124	–	124	–	–	–
Total Equity		**4,376**	**15**	**4,391**	**4,049**	**15**	**4,064**
Total Equity and Liabilities		**11,881**	**15**	**11,896**	**9,937**	**15**	**9,952**

* Reported financial position for the financial year ended 31 March 2006.

Notes to the Financial Statements continued

For the year ended 31 March 2008

Effect of NZ IFRS on the income statement for the financial year ended 31 March 2007

	Group Superseded polices* $000	Group Effect of transition to NZ IFRS $000	Group NZ IFRS $000	Parent Superseded policies* $000	Parent Effect of transition to NZ IFRS $000	Parent NZ IFRS $000
Revenue	33,343	–	33,343	30,683	–	30,683
Cost of sales	(24,048)	2	(24,046)	(22,341)	2	(22,339)
Gross profit	**9,295**	**2**	**9,297**	**8,342**	**2**	**8,344**
Other income	(21)	–	(21)	1,222	–	1,222
Marketing expenses	(2,152)	–	(2,152)	(1,814)	–	(1,814)
Occupancy expenses	(626)	6	(620)	(614)	–	(614)
Administration expenses	(6,205)	(34)	(6,239)	(5,395)	(34)	(5,429)
Finance costs	(51)	–	(51)	(51)	–	(51)
Profit before income tax expense	**240**	**(26)**	**214**	**1,690**	**(32)**	**1,658**
Income tax expense	(120)	3	(117)	–	3	3
Profit for the period	**120**	**(23)**	**97**	**1,690**	**(29)**	**1,661**
Profit attributable to:						
Minority interest	161	–	161			
Members of the parent entitiy	(41)	(23)	(64)			
	120	**(23)**	**97**			

* Reported financial results for the year ended 31 March 2007.

Notes to the Financial Statements continued

For the year ended 31 March 2008

Effect of NZ IFRS on the balance sheet as at 31 March 2007

	Note	Group Superseded polices* $000	Group Effect of transition to NZ IFRS $000	Group NZ IFRS $000	Parent Superseded policies* $000	Parent Effect of transition to NZ IFRS $000	Parent NZ IFRS $000
Current Assets							
Trade and other receivables		6,337	(19)	6,318	6,710	(81)	6,629
Current tax assets		586	–	586	698	–	698
Other current assets		754	–	754	689	83	772
Total Current Assets		**7,677**	**(19)**	**7,658**	**8,097**	**2**	**8,099**
Non-Current Assets							
Property, plant and equipment		1,948	(225)	1,723	1,879	(183)	1,696
Deferred tax asset	b	–	177	177	–	177	177
Other financial assets		–	–	–	2,459	–	2,459
Goodwill	a	291	6	297	–	–	–
Other intangible assets		731	225	956	88	183	271
Total Non-Current Assets		**2,970**	**183**	**3,153**	**4,426**	**177**	**4,603**
Total Assets		**10,647**	**164**	**10,811**	**12,523**	**179**	**12,702**
Current Liabilities							
Trade and other payables		4,645	(364)	4,281	4,535	(302)	4,233
Current borrowings		1,463	–	1,463	2,040	–	2,040
Provisions		557	34	591	489	34	523
Other current liabilities		–	343	343	–	302	302
Total Current Liabilities		**6,665**	**13**	**6,678**	**7,064**	**34**	**7,098**
Non-Current Liabilities							
Deferred tax liability	b	–	174	174	–	174	174
Total Non-Current Liabilities		**–**	**174**	**174**	**–**	**174**	**174**
Total Liabilities		**6,665**	**187**	**6,852**	**7,064**	**208**	**7,272**
Equity							
Issued share capital		4,908	–	4,908	4,908	–	4,908
Retained earnings	c	(894)	(23)	(917)	551	(29)	522
Foreign currency translation reserve		(32)	–	(32)	–	–	–
Total Equity		**3,982**	**(23)**	**3,959**	**5,459**	**(29)**	**5,430**
Total Equity and Liabilities		**10,647**	**164**	**10,811**	**12,523**	**179**	**12,702**

*Reported financial position for the financial year ended 31 March 2007.

a. Goodwill

The Group has elected not to restate business combinations that occurred prior to the date of transition to NZ IFRS, and accordingly, the carrying amount of goodwill at the date of transition has not changed. In addition, goodwill arising from these business combinations that involved the acquisition of foreign businesses will be treated as a New Zealand dollar denominated asset.

However, goodwill, which was amortised under superseded policies, is not amortised under NZ IFRS from the date of transition. The effect of the change for the Group is an increase in the carrying amount of goodwill by $6,060 (Parent: nil) and an increase in net profit before tax of $6,060 (Parent: nil) for the financial year ended 31 March 2007. There is no tax effect as deferred taxes are not recognised for temporary differences arising from goodwill for which amortisation is not deductible for tax purposes.

b. Income tax

Under superseded policies, the Group adopted tax-effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting was recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under NZ IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases.

The effect of the above adjustments on the deferred tax balances are as follows:

	Group 1 Apr 06 $000	Group 31 Mar 07 $000	Parent 1 Apr 06 $000	Parent 31 Mar 07 $000
Deferred tax not recognised under previous GAAP	15	3	15	3
Net increase in deferred tax balances recognised in income statement	15	3	15	3
Net increase in deferred tax balances	15	3	15	3

The effect on Group profit for the financial year ended 31 March 2007 was to decrease previously reported income tax expense by $2,569 (Parent: decrease of $2,569).

Notes to the Financial Statements continued

For the year ended 31 March 2008

c. Retained earnings

The effect of the above adjustments on retained earnings is as follows:

	Note	Group 1 Apr 06 $000	Group 31 Mar 07 $000	Parent 1 Apr 06 $000	Parent 31 Mar 07 $000
Goodwill no longer amortised	a	–	6	–	–
Adjustments to deferred tax balances	b	15	3	15	3
Reversal of general provisions		–	2	–	2
Recognition of sick leave provision		–	(34)	–	(34)
Total adjustment to retained earnings		**15**	**(23)**	**15**	**(29)**
Attributable to members of the parent entity		15	(23)	15	(29)
Attributable to minority interests		–	–	–	–
		15	**(23)**	**15**	**(29)**

Group Directory

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