



Market Announcement

25 August 2011

Chairman's address

Zintel Group Ltd Annual Meeting 25 August 2011

We have consistently expressed our desire to grow Zintel Group and so it is most pleasing to report revenue up 17% to \$58m with net profit before tax up 65% to \$804,000, demonstrating our capability to execute growth plans during a challenging year in both the New Zealand and Australian economies. I think also important to note EBITDA to 31 March 2011 of \$1.85 million.

Turning to our operations, firstly Zintel Australia based in Sydney specialises in managing toll-free 1800 & 1300 calls for business customers. This business, which was established in 2000, and built on the delivery of toll-free services, has enjoyed a most profitable year to March 2011. Staff numbers have increased from 32 people a year ago to 42 today, and a number of innovative new products have been developed, including call recording and toll-free texting. The Directors support a plan to step up the investment with additional staff, predominately sales, and further applications development this year, which will deliver growth in coming years. As a result of this investment the year to 2012 will take a step backward in budgeted profit, so that we can realise revenue and profit growth from 2013 and beyond

Zintel Cogent was formed in New Zealand after the acquisition of the business of Cogent Communications and the subsequent integration with our existing Zintel Enterprise and Zintel Communications businesses. Zintel Cogent was still loss making last financial year, although the trend continues to make reducing losses which we aim to turn to profit this year ending 31 March 2012. The business is now realising the opportunity intended by the acquisition, to establish stronger relationships with the ex-Cogent customers and cross sell other services. Again this requires additional sales people and we are growing the headcount in order to communicate with, and manage our customer base.

It will be two years this October since we acquired Cogent Communications which has taken this length of time to bed in. Last year we talked about the three stages of integration, stabilisation and growth. Integration of Zintel and Cogent is now largely complete. Stabilisation includes creating a strong management team and putting effective and efficient processes into place. The three stages outlined above are not mutually exclusive to each other, which is to say we are stabilising the business whilst still integrating and setting up the foundation for growth. We may well make a further acquisition should the right opportunity arise prior to completion of the first two stages. Zintel Cogent has New Zealand wide coverage for sales and service, and a well-established customer base of many thousands of businesses using our range of telephony technologies. We are focussing on creating strong customer relationships to ensure these customers retain our business telephone systems (preferably on an operating lease basis) whilst we cross-sell our other services such as tolls and toll free, business telephone access lines, audio conference facilities and mobile voice and data. Zintel Payments imports and distributes Hypercom terminals for processing EFTPOS and credit cards in retail stores, and has traded very profitably during the year ending March 2011. We were able to capitalise on the requirement for terminals to be replaced to meet compulsory security requirements, although sales of terminals have now slowed considerably. On the 5th August 2011



Hypercom was acquired by its largest competitor Verifone Systems Incorporated and long term we do not know what implications, if any, this will have in New Zealand. Last week I met with the head of Verifone for Asia & South Pacific, in Sydney and was assured they would continue to manufacture our range of terminals and that they have multiple distributors in many other countries as they now have in New Zealand. As the replacement boom is now over, for the time being Payments represents a small part of our business.

Now turning to dividend and balance sheet, the Directors declared a year-end dividend of 1 cent per share, plus imputation credits making a total gross payment of 1.43 cents per share, which was paid on 3rd August. It remains our policy to pay at least 40% of profits to shareholders in the form of dividend, although the actual payment this year considerably exceeds this as we have sufficient cash reserves with no immediate requirement to invest.

Net assets have increased to \$11.27m and cash in bank as at 31 March was \$5.55m. We anticipate cash in bank will be reduced at 30 September half year, due to the dividend paid and other timing of accounts payable and inventory levels etc. We have also been in discussion with our bankers with regard to a debt facility that could be used in the event of further acquisitions should we chose not to use cash. We continue to investigate further acquisition opportunities, but may also divest parts of existing business that are no longer core or are not profitable. Any further progress on this would be announced when and if it occurred.

Trading conditions have again been challenging for the year. Businesses are looking for opportunities to reduce costs and as a result we are experiencing more businesses going to tender. Businesses are also less willing to pay for services that are not critical. Technological advances are creating confusion in the market which adds complications to the sales process. Another flow on effect of the challenging business conditions is that cash collection has become more difficult. The employment market is tight in the middle management band and skilled labour has been hard to recruit. We do recognise we are in a dynamic and evolving Telecommunications industry and by adopting new technologies, we plan to remain competitive. The separation of Telecom New Zealand is most favourable to Zintel and supports our long established philosophy of wholesale purchase of airtime (commonly known as a service provider), rather than us becoming a carrier.

Sydney based Johan Scholtz is a Director of Zintel Group and is managing both the Australian and New Zealand businesses on a day to day basis, and continues to spend considerable time in New Zealand. We have deferred appointing a New Zealand based General Manager, as Johan's considerable experience and knowledge of the business and industry has been invaluable during a time of much change. The board has decided to promote him to the position of Managing Director, which is a reflection of the valuable contribution he has made to the Group over the last eleven years. Johan is focussed on building a strong executive team under him to continue improvement

particularly in New Zealand, which will lead to increased profitability. When we do appoint a GM in New Zealand, that role will report to Johan.

Our outlook is good, operational efficiency is improving but further work is required to continue to improve profitability on revenue of almost \$60m and with 240 staff. We continue to invest in sales people and product development whilst reducing other operational expenses. In summary for the year to 31 March 2012, Zintel Australia and Zintel Payments will produce smaller profits, whilst we



are budgeting for Zintel Cogent to be profitable for the year. Overall, we expect this to result in significantly increased profit at Group level for the year to March 2012. It is still too early for us to forecast the first half to 30 September 2011 although this period will not be as profitable as the immediate prior six month to 31st March 2011 which was a very strong half.

Based on revenue, profit improvement, a strong balance sheet and the potential dividend yield to shareholders, we consider the Zintel share price at 26 cents is undervalued. As we have previously advised, consideration is still being given to moving from the NZAX to the main NZX board, which amongst other benefits should improve share liquidity. This would require the appointment of at least one additional independent Director. Although we have no fixed timeframe, we want to keep shareholders informed of our long term intentions.

I am delighted to be realising our ambitions to grow the Group, through both internal investment opportunities and by acquisition. Through increased size and revenue and with a focus on execution, sustainable growth in profit should follow and I am confident shareholders will be well pleased with future results.

In closing, I would once again like to acknowledge and publically thank my fellow Directors and our dedicated employees for their commitment, enthusiasm and loyalty. Embedding a large acquisition and entering a major expansion phase creates many stresses, but also creates many exciting opportunities to which so many of our staff have stepped up to contribute so much to the Company. Finally, thank you to our shareholders for continuing to support us.

ENDS

About Zintel Group limited

Established in 1995 and listed on the NZAX, Zintel Group Limited provides a broad range of business telecommunication solutions to companies across New Zealand and Australia. The Group comprises of three businesses - Zintel Cogent, Zintel Payments and Zintel Communications in Australia. Zintel Cogent provides innovative telecommunications solutions, including business phone systems, contact centre solutions, Mobile, Toll free and voice services through to network infrastructure and structured cabling. Zintel Payments is a New Zealand importer and distributor for EFTPOS terminals. Zintel Communications Pty is Australia's Toll free specialist and provides a range of competitive business telecommunication services. Zintel Group has over 230 employees operating from 15 nationwide offices across New Zealand and Australia.

For further information:

Nick Gordon, Zintel Group Chairman on +64 21 930568