

## **MARKET ANNOUNCEMENT**

Chairman's address

Zintel Group Limited Annual General Meeting, 24 August 2010

I am delighted to stand before our shareholders and outline the major growth phase we have now commenced, after several years of consistently reiterating our desire and intention to grow the company both internally and by acquisition. Firstly, the Hypercom EFTPOS distribution for New Zealand, secondly the acquisition of Cogent Communications and thirdly, the recent announcement of an MVNO for mobile.

Firstly, we established a new subsidiary, Zintel Payments Ltd, to distribute the Hypercom payment terminals for EFTPOS and credit card in retail stores. We commenced selling terminals in late October 2009 after spending ten months gaining re-certification with Paymark. Losses were incurred during the establishment period to 31 March 2010, although I am pleased to advise that Zintel Payments has contributed a modest profit in the new financial year to date, which we expect will increase significantly over the next 12 calendar months. There are 57,000 terminals in retail stores that must be replaced by June next year to meet compulsory banking security requirements, of which we stand to gain a sizeable share. Currently retailers are slow to replace non-compliant terminals, thus providing us the breathing space to take our product to market, which we are distributing through a number of accredited resellers across New Zealand. Together with these resellers we have already been successful in securing orders from a numbers of prominent retailers including Bunnings, Kings Plant Barn, Forlongs Furniture, Savemart, Danske Mobler, Chesters Plumbing Supplies and Combined Rural Traders. I cannot be more specific about our sales forecasts as we are reliant on retailers actually ordering terminals and banks enforcing the threatened deadline of June 2011, which would see non-compliant terminals disconnected from the network. With the current slow uptake, the task of managing inventory forecasts and actually installing this quantum of terminals in the time available is daunting. Thus we have a tiger by the tail!

Secondly, we acquired the business of Cogent Communications on 1st October 2009. The legal entity has been amalgamated with Zintel Enterprise to form Zintel Cogent Ltd. This acquisition more than doubled our staff numbers in New Zealand and has taken total numbers from 120 to 230 staff. As one would expect, it is a significant task to digest and integrate the businesses, but I am pleased to advise we are well advanced. A new general ledger was implemented several months ago and software has been developed and rolled out to automate the service delivery engine with technicians in the field using handheld smartphones. Last weekend the Cogent customer relationship management software was moved across from Onesource, meaning we are now completely off all their legacy computer systems which were incurring significant monthly costs.



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We are currently recruiting a number of executive positions to strengthen the management team. The combined Zintel Cogent entity now has 14 branch offices throughout New Zealand for sales and service, and a well-established customer base of many thousands of businesses using Cogent telephone technology. The opportunity we intend to realise is to establish 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 lines and access, audio conference facilities and in the near future mobile voice and data.

Which brings me to our third growth initiative, the recent announcement of an MVNO (Mobile Virtual Network Operator) agreement with Telecom. An MVNO is something we have been seeking for many years and provides Zintel Cogent with the ability to offer our customers 3G mobile cellular on our rate plans and billing platform. We are about to commence a soft product launch, which in the next 12 months is expected to be a loss making investment, but over time will provide top line revenue growth, recurring income and a deeper relationship with existing customers.

With regard to the financial results, last year Zintel Group achieved revenue of \$49.51 million, an increase of 26.5% on prior year revenue of \$39.14m. This produced net profit before tax of \$488,000, down from \$3.42 million last year, as we incurred acquisition, transition and restructuring costs, and some divisional trading losses as anticipated. After tax profit was \$272,000 as against \$2.29 million last year. The Group's balance sheet has no long term debt, net assets of \$10.68 million and cash in bank as at 31 March of \$5.43 million. At July 31<sup>st</sup>, total equity was similar although cash had reduced to \$4.6m due to investments in capital equipment, systems and software. Zintel Group has traded at a modest consolidated profit to the end of July and we anticipate a profitable month in August.

It is worth noting in general terms where the Groups cash has been absorbed since September 2009. We acquired the net assets of Cogent, excluding debt or cash, and have funded the working capital of this business for debtors and inventory etc, in addition to the acquisition cost. Further capital is also being expended for information systems and software. There have been significant restructuring and transitional costs for consultants and project managers and Zintel Cogent ran at a loss for the last half year to 31 March. Zintel Payments has made a significant investment in inventory of EFTPOS terminals. These costs are as anticipated and well within the capacity of our balance sheet.

No final dividend was paid for the year ended 31 March for two reasons. Firstly, last November we took the opportunity to impute tax credits at 33%. These were only applicable to payments physically made prior to 31 March 2010 and accordingly paid a very high interim dividend last November of 2.5 cents per share, resulting in a gross payment of 3.731 cps. Secondly, the interim dividend referred to above exceeded the total profit for the year due to trading losses in the second half. It remains Group policy to pay at least 40% of profits to shareholders in the form of dividend, although before I am asked the question, it is too early to advise whether or not we will declare an interim dividend at September 2010 half year.

As we progress our strategy, I see three stages of development – Integration, Stabilisation and Growth. Integration of Zintel and Cogent is largely complete although it takes time to create a new single culture. We still have work to do in many areas such as branding and investor relations. This stage incurs higher than usual costs in the business. Stabilisation includes creating a dynamic management team to lead the new organisation, putting effective and efficient processes into place and becoming increasingly profitable over time. As example, we are currently recruiting a National Marketing Manager and a Technical Services Manager. We have recently hired Tim Westbrook as National Sales Manager and he has made an impressive start with his professional skills and focus. Once we have the businesses fully integrated and stable, we intend to seek out new growth initiatives, both internally and by further acquisition.

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 we may well make a further acquisition should the right opportunity arise prior to completion of the first two stages.

Trading conditions in our industry for both New Zealand and Australia are tough and highly competitive. This results in lower margins and we constantly strive to align costs. On a positive note, the operational separation of Telecom is most favourable to us and supports our long established philosophy of wholesale purchase of airtime, rather than the high capital investment in infrastructure. External factors aside, we now have a considerably increased size of business in terms of headcount and revenue, and we anticipate reducing expenses over time through operational efficiency and lower overheads, resulting in increasing profitability in this and coming years. It is however too early for us to provide any kind of accurate forecast as to profitability during a period of so much change.

Since March 2009, Paul Connell has temporarily acted as the New Zealand General Manager and he will be returning to the role of non-executive Director as at 1<sup>st</sup> September. I would like to acknowledge and thank Paul for stepping into the executive role and his dedication and commitment assisting the Company over the last eighteen months. We have commenced the recruitment process for a permanent GM for New Zealand. Johan Scholtz continues as GM Australia and also as a Group Director, spending considerable time in New Zealand due to Board involvement with the Cogent integration and our growth initiatives.

It is also worthy of note that we commenced business in Australia ten years ago today and that the business is performing very well, profitable and cash flow positive. Zintel Australia focuses primarily on toll free business and this financial year we are on a conscious growth phase, with staff numbers budgeted to increase from 25 to 36 people. Johan has also been with the Company for all that time and I would like to acknowledge the valuable contribution he has made.

As the Zintel Group grows, consideration is being given to moving from the NZAX to the main NZX board, which amongst other benefits should improve exposure and share liquidity. This would require the appointment of at least one additional Director. Although we have no fixed timeframe, we want to keep shareholders informed of our intentions.



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In closing, I would once again like to acknowledge and publicly thank my fellow Directors and our dedicated employees for their commitment, enthusiasm and loyalty. Digesting a large acquisition and entering a major expansion phase creates many stresses, to which so many of our staff have stepped up to the mark, worked long hours and are contributing so much to the Company.

Once again thank you for attending

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**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, Toll free and voice services - through to network infrastructure and structured cabling. Zintel Payments is the exclusive New Zealand importer and distributor for Hypercom EFTPOS terminals. Zintel Communications Pty is Australia's Toll free specialist and provides a range of competitive business telecommunication services. Zintel Group has over 250 employees operating from 15 nationwide offices across New Zealand and Australia.

**For further information:**

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