

ZINTEL HALF YEAR REPORT | 2007

For the six months ended 30 September 2007



MESSAGE FROM THE CHAIRMAN AND CEO

20 November 2007

Dear Shareholders,

We are pleased to present the half year report to 30 September 2007 for Zintel Group Limited.

For the half year ended 30 September 2007 net profit before tax was \$1.99m on revenue of \$18.96m.

Profitability in the first half of this financial year is significantly ahead of the poor first half last year, and is in line with profitability from continued operations in the second half of last year. However, we are expecting a lower second half this year than the relatively strong first half. For the full year ending 31 March 2008 we expect profit from continued operations to be ahead of last year, but the net profit after tax will be lower due to considerable profit from discontinued operations last year.

Profit before tax of \$1.99m to 30 September 2007 resulted in an unaudited net profit after tax of \$1.248m, with strong cash flow from operating activities of \$1.784m. The Group has no debt and retains cash in the bank of \$6.9m after completing the acquisition of Concert Telecom assets in Australia on 1 July 2007.

We are pleased to declare an interim dividend consistent with the previous period of 1.00 cent per share plus imputation credits, resulting in a gross payment of 1.4925 cps, with a record date of 30 November 2007, payable on 14 December 2007.

Whilst the task to grow revenue remains as challenging as ever, there has been pleasing progress on a number of fronts. The acquisition of the Concert Telecom customer base has improved the company's overall performance in Australia. In New Zealand, the Enterprise business has traded profitably in the first half year and this is expected to continue for the second half; and the Communications business continues to maintain its competitiveness and is tracking well against budget in a difficult market.

The Group continues to invest in research and development and this investment is expected to result in the launching of new services to the market early in the next financial year. We are also committed to an acquisition strategy to increase our capability as an Information and Communications Technology (ICT) provider with specific expertise in the needs of contact centres. As a result there is considerable activity aimed at identifying further acquisition targets both in Australia and New Zealand.

These financial statements are the first Zintel Group Limited statements to be prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and includes explanations and reconciliations of the effect of transition from previous accounting standards used (NZ FRS). This has resulted in the half year report being considerably longer than previous half year reports.

We also regrettably advise of the resignation of Gavin Walker from the role of non-executive Director due to other business commitments. Gavin has made a valued contribution to the direction and governance of our business and we are deeply indebted to his contribution over these past five years. The search for a replacement Director has commenced.

Once again our thanks go to all the staff in our businesses for their work and at times significant effort above and beyond the call of duty. We are fortunate to have such a dedicated and capable team of people.

Yours sincerely



Nick Gordon
Chairman



Peter Revell
Chief Executive Officer



INCOME STATEMENT

FOR THE PERIOD ENDED 30 SEPTEMBER 2007

	6 months ended 30 September 2007	6 months ended 30 September 2006	12 months ended 31 March 2007
Notes	\$'000	\$'000	\$'000
Revenue from continuing operations	18,961	19,306	38,022
Other income	266	183	418
Employee benefits expense	(5,000)	(4,863)	(9,169)
Depreciation and amortisation expense	(319)	(313)	(645)
Other expenses	(11,900)	(13,273)	(25,568)
Finance costs	(18)	(16)	(35)
Profit from continuing operations before income tax	1,990	1,024	3,023
Income tax expense	(742)	(374)	(1,059)
Profit from continuing operations	1,248	650	1,964
Profit from discontinued operations	5	147	745
Profit attributable to members of Zintel Group Limited	1,248	797	2,709
	Cents	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company during the year:			
Basic earnings per share	2.5	1.6	5.4
Diluted earnings per share	2.5	1.6	5.3
	Cents	Cents	Cents
Attributable to continuing operations:			
Basic earnings per share	2.5	1.3	3.9
Diluted earnings per share	2.5	1.3	3.9
	Cents	Cents	Cents
Attributable to discontinued operations:			
Basic earnings per share	-	0.3	1.5
Diluted earnings per share	-	0.3	1.5

CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 SEPTEMBER 2007

	Notes	30 September 2007 \$'000	30 September 2006 \$'000	31 March 2007 \$'000
Assets				
Current assets				
Cash and cash equivalents		6,929	5,617	6,577
Trade and other receivables		5,092	4,929	5,183
Inventories		399	643	706
Current tax receivables		-	-	146
Non-current assets classified as held for sale	5	-	496	26
Total current assets		12,420	11,685	12,638
Non-current assets				
Other receivables		324	324	324
Property, plant and equipment		846	1,098	917
Deferred tax assets		419	695	636
Goodwill	10	694	-	-
Intangible assets	10,13	729	328	348
Total non-current assets		3,012	2,445	2,225
Total assets		15,432	14,130	14,863
Liabilities				
Current liabilities				
Trade and other payables		4,334	5,443	5,045
Current tax liabilities		11	-	-
Provisions		752	147	304
Derivative financial instruments		-	8	-
Total current liabilities		5,097	5,598	5,349
Non-current liabilities				
Other payables		324	324	324
Total non-current liabilities		324	324	324
Total liabilities		5,421	5,922	5,673
Net assets		10,011	8,208	9,190
Equity				
Contributed equity		4,168	4,168	4,168
Reserves	6(a)	19	(7)	(59)
Retained earnings	6(b)	5,824	4,047	5,081
Total equity		10,011	8,208	9,190

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

		6 months ended 30 September 2007	6 months ended 30 September 2006	12 months ended 31 March 2007
	Notes	\$'000	\$'000	\$'000
Equity at the beginning of the period		9,190	8,370	8,370
Adjustment on adoption of NZ IAS 32 and NZ IAS 39, net of tax, to:				
Retained earnings	13	-	(73)	(73)
Reserves	13	-	-	-
Total equity at the beginning of the financial year		9,190	8,297	8,297
Reserves	6	7	15	18
Exchange differences on translation of foreign operations	6	71	(22)	(77)
Net income recognised directly in equity		9,268	8,290	8,238
Profit for the period		1,248	797	2,709
Total recognised income and expense for the period		10,516	9,087	10,947
Dividends provided for or paid	7	(505)	(879)	(1,757)
Total equity at the end of the period		10,011	8,208	9,190

CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

		6 months ended 30 September 2007	6 months ended 30 September 2006	12 months ended 31 March 2007
	Notes	\$'000	\$'000	\$'000
Cash flows from operating activities				
Receipts from customers (inclusive of GST)		18,886	20,920	39,231
Payments to suppliers and employees (inclusive of GST)		(16,880)	(18,523)	(34,798)
Interest received		266	183	417
Income taxes paid		(488)	(682)	(1,230)
Net cash inflow from operating activities	12	1,784	1,898	3,620
Cash flows from investing activities				
Payment for purchase of business assets (net of cash acquired)	10	(764)	-	-
Payments for property, plant and equipment		(248)	(383)	(660)
Proceeds from sale of business assets	5	-	-	370
Proceeds from sale of property, plant and equipment		22	3	1
Net cash outflow from investing activities		(990)	(380)	(289)
Cash flows from financing activities				
Dividends paid to company's shareholders	7	(505)	(879)	(1,757)
Net cash outflow from financing activities		(505)	(879)	(1,757)
Net increase in cash and cash equivalents		289	639	1,574
Cash and cash equivalents at the beginning of the period		6,581	5,111	5,111
Effects of exchange rate changes on cash and cash equivalents		59	(42)	(104)
Cash and cash equivalents at end of the period		6,929	5,708	6,581

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Zintel Group Limited ("the Group") and its subsidiaries (together "the Group") comprises of two businesses: Communications and Enterprise. The Communications business offers business customers a range of telecommunication services, including Tolls and Toll free calls; the Enterprise business offers Information and Communications Technology (ICT) and contact centre solutions, specialising in Ericsson PBXs and phone systems, and installation and maintenance of Enterprise systems.

The Group is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 5 Wilkins Street, Freemans Bay, Auckland. The Group has its primary listing on the New Zealand Stock Exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 November 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2007.

(a) Basis of preparation of half year financial report

These consolidated financial statements for the interim half year reporting period ended 30 September 2007 have been prepared in accordance with NZ IAS 34 Interim Financial Reporting (NZ IAS 34), and are covered by NZ IFRS 1 First-time Adoption of NZ International Financial Reporting Standards (NZ IFRS) because they are part of the period covered by the Group's first NZ IFRS financial statements for the year ended 31 March 2008. These interim financial statements do not include all the notes of the type normally included in an annual financial report.

(i) Entities reporting

The consolidated financial statements of the consolidated entity are for the economic entity comprising Zintel Group Limited and its subsidiaries.

The parent company and the consolidated entity are designated as profit orientated entities for financial reporting purposes.

(ii) Statutory base

These financial statements are the first Zintel Group Limited financial statements to be prepared in accordance with NZ IFRS. NZ IFRS 1 has been applied in preparing these financial statements.

These financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

(iii) Application of NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards

These financial statements are the first Zintel Group Limited financial statements to be prepared in accordance with NZ IFRS.

Financial statements of Zintel Group Limited until 31 March 2007 had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differs in certain respects from NZ IFRS. When preparing Zintel Group Limited 2008 financial statements, management has amended certain accounting and valuation methods applied in the NZ FRS financial statements to comply with NZ IFRS. With the exception of financial instruments, the comparative figures in respect of 2007 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous NZ FRS to NZ IFRS on the company's equity and its net income are given in Note 13.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zintel Group Limited ("company" or "parent entity") as at 30 September 2007 and the results of all subsidiaries for the period then ended. Zintel Group Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all fully owned by Zintel Group Limited or 100 per cent owned within the Zintel Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between intercompanies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's operations are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in New Zealand dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available for sale financial assets, are included in the fair value reserve in equity.

(iii) Foreign operations

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences is recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of GST, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods

Sales of goods are recognised when the Group sells a product to the customers.

(ii) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest

rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(f) Deferred income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction, and adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised within equity.

(i) Tax consolidation legislation

Zintel Group Limited and Zintel Communications Limited have formed a tax consolidated group. Following on from this, Zintel Group Limited, as the nominated company in the tax consolidated group, recognises the current tax amounts relating to the consolidated group as if those transactions, events and balances were its own.

(g) Goods and Services Tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(h) Leases

(i) The Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(ii) The Group is the lessor

Assets leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term.

(i) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than one month from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Inventories

(i) Raw materials and stores, work in progress and finished goods

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(n) Investments and other financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets held for trading or designated as fair value through profit or loss by management. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other expenses.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(o) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(p) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date discounted to present value.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(q) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using diminishing value method to allocate their cost over their estimated useful lives, as follows:

Computer equipment	39% to 60%
Office equipment	18% to 39%
Motor vehicles	26%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(ii)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(r) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business/associate at the date of acquisition. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of those cash generating units represents the Group's investment in each country of operation by each primary reporting segment (Note 4).

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the diminishing value method to allocate the cost over the period of the expected benefit.

(iii) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

(iv) Customer Lists

Any acquired customer lists are valued at date of acquisition, based on the discounted cash flows over the estimated useful life of the customers and amortised over the estimated useful life.

(s) Trade and other payables

Trade and other payables amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within a month of recognition.

(t) Provisions

Provisions for legal claims and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability.

(u) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long-service leave

The liability for long-service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match as closely as possible the estimated future cash outflows.

(iii) Retirement benefit obligations

Certain employees of the Group are entitled to benefits on retirement, disability or death from independent superannuation plans. The plans are considered to be defined contribution plans and receive fixed contributions from the Group with the Group's legal or constructive obligation being limited to these contributions.

Contributions to the defined contribution plans are recognised as an expense as they become payable.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share-based payments

The Group operates an equity settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(v) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are included in the cost of the acquisition as part of the purchase consideration.

Where the Group purchases its equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

(w) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(y) Interim Measurement

(i) Current income tax

Current income tax expense is recognised in these interim consolidated financial statements based on management's best estimates of the weighted average annual income tax rate expected for the full financial year.

(ii) Costs

Costs that occur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the full financial year.

3 TRANSITION TO NZ IFRS

(a) Application of NZ IFRS 1

The Group's financial statements for the year ended 31 March 2008 will be the first annual financial statements that comply with NZ IFRS. The Group and Company have applied NZ IFRS 1 in preparing these consolidated financial statements as described in Note 2(a).

Zintel Group Limited transition date is 1 April 2006. The Group prepared its opening NZ IFRS balance sheet at that date. The reporting date of these interim financial statements is 30 September 2007. The Group's NZ IFRS adoption date is 1 April 2007.

(b) Exemptions from full retrospective application elected by the Group

Zintel Group Limited has elected to apply the following optional exemptions from full retrospective application:

(i) Business combinations exemption

Zintel Group Limited has applied the business combinations exemption in NZ IFRS 1. It has not restated business combinations that took place prior to the 1 April 2006 transition date. The application of this exemption is detailed in Note 13.

(ii) Designation of financial assets and financial liabilities exemption

The Group reclassified various financial assets as loans and receivables at fair value through profit and loss. The adjustments relating to NZ IAS 32 and NZ IAS 39 at the opening balance sheet date of 1 April 2006 are detailed in Note 13.

(c) Exceptions from full retrospective application followed by the Group

The Group has applied the following mandatory exceptions from retrospective application:

(i) Estimates exception

Estimates under NZ IFRS at 1 April 2006 should be consistent with estimates made for the same date under NZ FRS, unless there is evidence that those estimates were in error.

(d) Reconciliations between IFRS and NZ FRS

The reconciliations in Note 13 provide a quantification of the effect of the transition to NZ IFRS. The first reconciliation provides an overview of the impact on equity of the transition at 1 April 2006, 30 September 2006 and 31 March 2007.

The following reconciliations provide details of the impact of the transition on:

- equity at 1 April 2006
- equity at 30 September 2006
- equity at 31 March 2007
- net income 30 September 2006
- net income 31 March 2007
- equity at 1 April 2007

4 SEGMENT INFORMATION

(a) Description of segments

(i) Primary Reporting Format – Business Segments

At 30 September 2007, the Group is organised on a trans-Tasman basis into the following divisions by product and service type:

Zintel Enterprises – Zintel Enterprises is the sole partner for distribution, sales and service of Ericsson's enterprise product portfolio within New Zealand and implements and supports advanced IP-PBX and PBX hardware and software solutions in New Zealand.

Zintel Communications – Zintel Communications is a service provider of Toll free and Toll telephone services in New Zealand and Australia.

Zintel Leasing – Zintel Leasing Ltd is a wholly owned Zintel subsidiary, which has been established to provide business customers with an in-house option for rental operating leases of Ericsson equipment.

(ii) Secondary Reporting Format – Geographical Segments

The Group operates in two main geographical areas: New Zealand and Australia.

New Zealand is the home country of the Group. The Group provides Toll free and Toll telephone services in both Australia and New Zealand, and provides distribution, sales and service of Ericsson's enterprise product portfolio, implementation and support of IP PBX and PBX hardware and software, as well as leasing of Ericsson equipment in New Zealand.

(b) Primary reporting format – business segments

Six months ended 30 September 2007	Zintel Enterprises	Zintel Communications	Zintel Leasing	Total continuing operations	Discontinued operation (Note 5)	Inter-segment eliminations/unallocated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales to external customers	6,159	12,802	-	18,961	-	-	18,961
Inter-segment sales	-	-	-	-	-	-	-
Total sales revenue	6,159	12,802	-	18,961	-	-	18,961
Other income	-	58	-	58	-	208	266
Total revenue and other income	6,159	12,860	-	19,019	-	208	19,227
Profit before income tax	321	1,778	-	2,099	-	(109)	1,990
Income tax expense							(742)
Net profit for the period							1,248

Six months ended 30 September 2006	Zintel Enterprises	Zintel Communications	Zintel Leasing	Total continuing operations	Discontinued operation (Note 5)	Inter-segment eliminations/unallocated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales to external customers	6,827	12,479	-	19,306	869	-	20,175
Inter-segment sales	-	-	37	37	-	(37)	-
Total sales revenue	6,827	12,479	37	19,343	869	(37)	20,175
Other income	4	11	-	15	-	168	183
Total revenue and other income	6,831	12,490	37	19,358	869	131	20,358
Profit before income tax	(166)	1,374	3	1,211	153	(187)	1,177
Income tax expense							(380)
Net profit for the period							797

Twelve months ended 31 March 2007	Zintel Enterprises	Zintel Communications	Zintel Leasing	Total continuing operations	Discontinued operation (Note 5)	Inter-segment eliminations/unallocated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales to external customers	13,523	24,499	-	38,022	1,309	1	39,332
Inter-segment sales	-	-	37	37	-	(37)	-
Total sales revenue	13,523	24,499	37	38,059	1,309	(36)	39,332
Other income	1	68	1	70	372	347	789
Total revenue and other income	13,524	24,567	38	38,129	1,681	311	40,121
Profit before income tax	482	3,194	4	3,680	733	(657)	3,756
Income tax expense							(1,047)
Net profit for the period							2,709

5 DISCONTINUED OPERATIONS

(a) Description

On 1 August 2006 the company announced its intention to sell certain assets of Zintel Enterprise Pty Limited and initiated an active program to locate a buyer and complete the sale. The sale was completed on 23 January 2007 and is reported in the financial year ended 31 March 2007 as a discontinued operation.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below and in Note 4.

(b) Financial performance and cash flow information

	30 September 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
Revenue	-	869	1,312
Expenses	-	(716)	(948)
Profit before income tax	-	153	364
Income tax (credit)/expense	-	(6)	12
Profit after income tax of discontinued operations	-	147	376
Gain on sale of the division before income tax	-	-	369
Income tax expense	-	-	-
Gain on sale of the division after income tax	-	-	369
Profit from discontinued operations	-	147	745
Cash flow			
Net cash inflow from ordinary activities	-	147	376
Net cash inflow from investing activities	-	-	370
Net increase in cash generated by the division	-	147	746

(c) Carrying amounts of assets held for sale

	Disposal date		
	23 January 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
Property, plant and equipment	25	31	-
Cash	38	91	4
Trade receivables	247	278	10
Deferred Tax	40	47	12
Inventories	24	49	-
Total assets	374	496	26

	23 January 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
Consideration received or receivable	-	-	390
Total disposal consideration	-	-	390
Carrying amount of net assets sold	-	-	(21)
Gain on sale before income tax	-	-	369
Income tax expense	-	-	-
Gain on sale after income tax	-	-	369

6 RESERVES AND RETAINED EARNINGS

(a) Reserves

	30 September 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
Foreign currency translation reserve	(6)	(22)	(77)
Option convertible note reserve	25	15	18
	19	(7)	(59)

	30 September 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000

Movements:

Option Convertible Note			
Balance 1 April	18	-	-
Increases in the period	7	15	18
Closing balance	25	15	18

	30 September 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000

Movements:

Foreign currency translation reserve			
Balance 1 April	(77)	-	-
Currency translation differences arising during the period	71	(22)	(77)
Closing balance	(6)	(22)	(77)

(b) Retained earnings

Movements in retained earnings were as follows:

	30 September 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
Balance 1 April	5,081	4,129	4,129
Net profit for the period	1,248	797	2,709
Dividends	(505)	(879)	(1,757)
Closing balance	5,824	4,047	5,081

(c) Nature and purpose of reserves

(i) Option convertible note

The option convertible note is a compound financial instrument consisting of a liability and an equity component. The equity component is accounted for under NZ IFRS 2 and measured at fair value at the grant date and is expensed over the vesting period with the corresponding credit posted to the option convertible note reserve. The liability component is accounted for under NZ IAS 39 and is initially recognised at fair value and subsequently measured at amortised cost.

The classification of components is not revised as a result of a change in the likelihood that a conversion option will be exercised.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign operations are taken to the foreign currency translation reserve, as described in Note 2(d). The reserve is recognised in profit and loss when the net investment is disposed of.

7 DIVIDENDS

(a) Ordinary shares

	30 September 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
Final dividend for the year	505	879	879
Interim dividend for the year	-	-	878
	505	879	1,757

8 COMMITMENTS

Lease commitments: Company as lessee

(i) Operating leases

The company leases various offices and equipment under non-cancellable operating leases expiring within two to five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	30 September 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:			
Within one year	646	722	658
One to two years	200	676	525
Two to five years	-	212	-
	846	1,610	1,183

9 RELATED PARTY TRANSACTIONS

(a) Parent entities

The ultimate parent entity within the Group is Zintel Group Limited.

(b) Subsidiary entities

The following subsidiaries are 100 per cent owned:

- Zintel Communications Limited
- Zintel Communications Pty Limited
- Zintel Enterprise Limited
- Zintel Enterprise Pty Limited
- Zintel Leasing Limited

(c) Directors

The names of persons who were directors of the company at any time during the financial period are as follows: Nick Gordon, Gavin Walker and Paul Connell. All of these persons were also directors during the year ended 31 March 2007.

(d) Key management and personnel compensation

Key management personnel compensation is set out below. The key management personnel are all the directors of the company and the executives reporting directly to the CEO with the greatest authority for the strategic direction and management of the company.

	6 months ended 30 September 2007	6 months ended 30 September 2006	12 months ended 31 March 2007
	\$'000	\$'000	\$'000
Short-term benefits	914	801	1,573
Termination benefits	-	165	165
Total	914	966	1,738

(e) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

Loan transactions and balances

	30 September 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
Loans to key management personnel			
Unsecured loans	324	324	324
Loans advanced from key management personnel			
Unsecured loans	324	324	324
Interest revenue from loans	16	13	33

On 5 May 2006 Zintel Communications Limited loaned \$810,000 to senior management to purchase optional convertible notes in Zintel Group Limited. At 30 September 2007, \$324,000 remains outstanding and is not due until 17 November 2008.

	6 months ended 30 September 2007	6 months ended 30 September 2006	12 months ended 31 March 2007
	\$'000	\$'000	\$'000
Purchase of goods			
N Gordon – Director			
Gordon Family Trust	139	139	278
Jaka Limited – Director Fees	-	25	50
Artique Limited – Directors Fees	25	-	-
P Connell – Director			
Connell & Associates – Directors Fees	18	18	35
Connell & Associates – Consultancy Fees	9	5	5
J Scholtz – Director (subsidiary)			
S Data Investments Pty Limited - Management Services	266	208	398
N Gordon and P Connell			
Provenco Group – IT Services	-	13	13
	457	408	779

	6 months ended 30 September 2007	6 months ended 30 September 2006	12 months ended 31 March 2007
	\$'000	\$'000	\$'000
Sales of goods and services			
N Gordon and P Connell – Directors			
Provenco Group – Telecommunications fees	24	32	56

(f) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	30 September 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
Current receivables (sales of goods and services)			
Provenco Group	4	3	5
Current payables (purchases of goods)			
Gordon Family Trust	-	-	19
Artique Limited	13	-	-
Connell & Associates	3	10	3
S Data Investments Pty Limited	41	26	90
	57	36	112

10 BUSINESS COMBINATION

(a) Summary of acquisition

On 1 July 2007, Zintel Communications Pty Limited acquired certain business assets of Concert Telecom Pty Ltd.

The acquired business assets were integrated with Zintel Communication Pty Limited. The acquired business contributed revenues of \$1,020,000 to the company for the period from 1 July 2007 to 30 September 2007. If the acquisition had occurred on 1 April 2007, consolidated revenue for the six months ended 30 September 2007 would have been \$1,992,000. It is not possible to separate out profit earnings from the acquired assets as the business was integrated with Zintel Communications Pty Limited on 1 July 2007.

Details of the net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
cash paid or payable	1,086
direct costs relating to the acquisition	70
Total purchase consideration	1,156
Fair value of net identifiable assets acquired (refer to (b) below)	59
Total intangible assets acquired	1,097
Goodwill	694
Intangible asset – customer base	403
Total intangible assets acquired	1,097

(b) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	\$'000	\$'000
Cash and cash equivalents	392	392
Trade receivables	479	479
Inventories	15	15
Trade payables	(658)	(658)
Provision for employee benefits	(16)	(16)
Deferred tax liability	(121)	(121)
Contingent liabilities	(32)	(32)
Net identifiable assets acquired	59	59

11 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

An interim dividend of 1 cent was declared on 20 November 2007, with a record date of 30 November 2007 and a payment date of 14 December 2007.

12 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES FOR THE PERIOD

	30 September 2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
Profit for the period after income tax	1,248	797	2,709
Depreciation and amortisation	319	313	645
Write off / loss/(gain) on sale of property, plant and equipment	(3)	-	102
Non-cash employee benefits expense – share-based payments	7	15	18
Increase/(decrease) in estimated doubtful debts	(1)	13	27
Provision for stock obsolescence	(1)	4	(16)
Bad debts written off	9	110	129
Interest expense on OCN	18	16	35
Interest received on OCN	(16)	(13)	(33)
Gain on disposal of business assets	-	-	(370)
(Increase)/decrease in trade debtors	778	684	(81)
(Increase)/decrease in inventories	324	262	264
(Increase)/decrease in prepayments	(183)	145	268
Increase/(decrease) in GST payable	(221)	(59)	63
(Increase)/decrease in staff share loans	2	1	4
Increase/(decrease) in trade creditors	(749)	(66)	116
Increase/(decrease) in provision for income taxes payable	157	(199)	(139)
(Increase)/decrease in provision for deferred income tax	96	(103)	(44)
Increase/(decrease) in foreign currency translation reserve	-	(22)	(77)
Net cash inflow from operating activities	1,784	1,898	3,620

13 EXPLANATION OF TRANSITION TO NEW ZEALAND EQUIVALENTS TO IFRS

(a) Reconciliation of equity reported under previous New Zealand Generally Accepted Accounting Principles (NZ GAAP) to equity under New Zealand equivalents to IFRSs (NZ IFRS)

(i) At the date of transition to NZ IFRS: 1 April 2006

	IFRS transition notes	Effect of transition		NZ IFRS \$'000
		Previous NZ GAAP \$'000	to NZ IFRS \$'000	
ASSETS				
Current assets				
Cash and cash equivalents		5,111	-	5,111
Trade and other receivables		5,716	-	5,716
Inventories		954	-	954
Current tax receivables		-	-	-
Total current assets		11,781	-	11,781
Non-current assets				
Property, plant and equipment	3b	1,384	(320)	1,064
Deferred tax assets	3a	556	36	592
Intangible assets	3b	-	320	320
Total non-current assets		1,940	36	1,976
Total assets		13,721	36	13,757
LIABILITIES				
Current liabilities				
Trade and other payables		5,351	-	5,351
Provisions	3a	-	109	109
Derivative financial instruments	3a	-	-	-
Total current liabilities		5,351	109	5,460
Non-current liabilities				
Other payables		-	-	-
Total non-current liabilities		-	-	-
Total liabilities		5,351	109	5,460
Net assets		8,370	(73)	8,297
EQUITY				
Contributed equity		4,168	-	4,168
Reserves		-	-	-
Retained earnings	3a	4,202	(73)	4,129
Total Equity		8,370	(73)	8,297

(ii) At the end of the last half year reporting period under previous NZ GAAP: 30 September 2006

IFRS transition notes	Effect of transition		NZ IFRS
	Previous NZ GAAP	to NZ IFRS	
	\$'000	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	5,708	(91)	5,617
Trade and other receivables	5,254	(325)	4,929
Inventories	692	(49)	643
Current tax receivables	-	-	-
Non-current assets classified as held for sale	-	496	496
Total current assets	11,654	31	11,685
Non-current assets			
Other receivables	324	-	324
Property, plant and equipment	3b 1,457	(359)	1,098
Deferred tax assets	3a 651	44	695
Intangible assets	3b -	328	328
Other financial assets	-	-	-
Total non-current assets	2,432	13	2,445
Total assets	14,086	44	14,130
LIABILITIES			
Current liabilities			
Trade and other payables	5,443	-	5,443
Provisions	3a -	147	147
Derivative financial instruments	3a -	8	8
Total current liabilities	5,443	155	5,598
Non-current liabilities			
Other payables	324	-	324
Total non-current liabilities	324	-	324
Total liabilities	5,767	155	5,922
Net assets	8,319	(111)	8,208
EQUITY			
Contributed equity	4,168	-	4,168
Reserves	3a 15	(22)	(7)
Retained earnings	3a 4,136	(89)	4,047
Total equity	8,319	(111)	8,208

(iii) At the end of the last reporting period under previous NZ GAAP: 31 March 2007

	IFRS transition notes	Previous NZ GAAP \$'000	Effect of transition to NZ IFRS \$'000	NZ IFRS \$'000
ASSETS				
Current assets				
Cash and cash equivalents		6,581	(4)	6,577
Trade and other receivables		5,205	(22)	5,183
Inventories		706	-	706
Current tax receivables		146	-	146
Non-current assets classified as held for sale		-	26	26
Total current assets		12,638	-	12,638
Non-current assets				
Other receivables		324	-	324
Property, plant and equipment	3b	1,265	(348)	917
Deferred tax assets	3a	603	33	636
Intangible assets	3b	-	348	348
Total non-current assets		2,192	33	2,225
Total assets		14,830	33	14,863
LIABILITIES				
Current liabilities				
Trade and other payables		5,045	-	5,045
Provisions	3a	129	175	304
Derivative financial instruments	3a	-	-	-
Total current liabilities		5,174	175	5,349
Non-current liabilities				
Other payables		324	-	324
Total non-current liabilities		324	-	324
Total liabilities		5,498	175	5,673
Net assets		9,332	(142)	9,190
EQUITY				
Contributed equity		4,168	-	4,168
Reserves	3a	18	(77)	(59)
Retained earnings	3a	5,146	(65)	5,081
Total Equity		9,332	(142)	9,190

(iv) Reconciliation of profit for the six months ended 30 September 2006

	IFRS transition notes	Effect of transition		NZ IFRS
		Previous NZ GAAP	to NZ IFRS	
		\$'000	\$'000	\$'000
Revenue from continuing operations	5	20,175	(869)	19,306
Other income		183	-	183
Employee benefits expense	5,3a	(4,991)	128	(4,863)
Depreciation and amortisation expense	5,3a	(323)	10	(313)
Other expenses	5,3a	(13,827)	554	(13,273)
Finance costs		(16)	-	(16)
Profit from continuing operations before income tax		1,201	(177)	1,024
Income tax expense	5,3a	(388)	14	(374)
Profit from continuing operations		813	(163)	650
Profit from discontinued operations	5	-	147	147
Profit attributable to members of Zintel Group Limited		813	(16)	797

(v) Reconciliation of profit for the year ended 31 March 2007

	IFRS transition notes	Effect of transition		NZ IFRS
		Previous NZ GAAP	to NZ IFRS	
		\$'000	\$'000	\$'000
Revenue from continuing operations	5	39,334	(1,312)	38,022
Other income	5	787	(369)	418
Employee benefits expense	5,3a	(9,412)	243	(9,169)
Depreciation and amortisation expense	5,3a	(663)	18	(645)
Other expenses	5,3a	(26,266)	698	(25,568)
Finance costs		(35)	-	(35)
Profit from continuing operations before income tax		3,745	(722)	3,023
Income tax expense	5,3a	(1,044)	(15)	(1,059)
Profit from continuing operations		2,701	(737)	1,964
Profit from discontinued operations	5	-	745	745
Profit attributable to members of Zintel Group Limited		2,701	8	2,709

(b) Reconciliation of cash flow statement for the year ended 31 March 2007

The adoption of NZ IFRSs has not resulted in any material adjustments to the cash flow statement.

(c) **Notes to the reconciliations**

(i) Retained earnings

The effect on retained earnings of the changes set out above are as follows:

		31 March 2007	30 September 2006	1 April 2006
	Notes	\$'000	\$'000	\$'000
(Debit)/credit				
Foreign currency translation reserve	(i-ii)	77	22	-
Sick leave provision	(i-iii)	-	-	(99)
Lease incentives	(i-iv)	(50)	(29)	(8)
Make good provisions	(i-iv)	(16)	(9)	(2)
Derivatives	(i-i)	-	(8)	-
Deferred tax	(i-v)	(3)	8	36
Total adjustment		8	(16)	(73)
Retained Earnings				
Previous NZ GAAP retained earnings		5,146	4,136	4,202
Effect of transition to NZ IFRS as above table		8	(16)	(73)
Effect of transition to NZ IFRS 1 April 2006		(73)	(73)	-
Total retained earnings		5,081	4,047	4,129

(i-i) *Derivative financial instruments*

Under NZ FRS the fair values of derivative financial instruments were disclosed in the notes to the accounts only. NZ IFRS requires all derivative financial instruments, whether used as hedging instruments or otherwise, to be carried at fair value in the balance sheet. Changes in the fair value of derivative financial instruments not used for or that do not qualify for hedge accounting are recognised immediately in the income statement. The effect of this change is as follows:

	31 March 2007	30 September 2006	1 April 2006
	\$'000	\$'000	\$'000
Derivatives liability recognised at fair value	-	(8)	-
Decrease in retained earnings	-	8	-
	-	-	-

At 1 April 2006 – There was no effect.

At 30 September 2006 – A derivative liability recognised of \$7,620. Other expenses were increased by \$7,620.

(i-ii) *Foreign currency translation reserve: cumulative translation differences*

The Group previously classified its Australian subsidiaries as integrated foreign operations. As such the results of the Australian subsidiaries were translated into New Zealand dollars and included in the consolidated financial statements and the translation difference was recognised in the Group income statement. Under NZ IFRS the Australian subsidiaries are considered to have an Australian dollar functional currency. As such exchange differences arising on consolidation are recorded in a foreign currency translation reserve within equity rather than in the income statement. The effect of this change in accounting policy is:

	31 March 2007	30 September 2006	1 April 2006
	\$'000	\$'000	\$'000
Decrease in foreign exchange losses and increase in net profit	(77)	(22)	-
Decrease (debit) in foreign currency translation reserve	77	22	-
	-	-	-

At 30 September 2006 – Retained earnings was increased by \$21,628 and the foreign currency translation reserve was decreased by \$21,628.

At 31 March 2007 – Retained earnings was increased by \$77,000 and the foreign currency translation reserve was decreased by \$77,000.

(i-iii) *Employee Benefits*

Currently employee entitlements to salaries and wages, annual leave, long service and other benefits are recognised when they accrue to employees and are fully vested. Under NZ IFRS employee entitlements are accrued as they are earned and long-service leave accrued is measured using actuarial techniques to reflect the probability that payment will be required.

	31 March 2007	30 September 2006	1 April 2006
	\$'000	\$'000	\$'000
Increase in provision for sick leave	-	-	99
Increase in provision for long-service leave	-	-	-
Total impact on assets	-	-	(99)

At 1 April 2006 – Retained earnings was decreased by \$99,275 and provisions were increased by \$99,275.

At 30 September 2006 – There was no effect.

At 31 March 2007 – There was no effect.

(i-iv) *Accounting for leases*

Under NZ IFRS, operating lease charges must be recognised on a straight-line basis over the lease term incorporating escalations in the lease charge over the term of the lease. This has resulted in the Group recognising more lease expense as set out in the table below.

Certain of the Group's leases include requirements for the Group to restore the leased premises to its original condition (except for normal wear and tear). Under NZ IFRS, a provision for the best estimate of the present value of expenditure required to comply with the make good requirements of leases should be recognised. This has resulted in a provision being recognised as set out in the table below.

	31 March 2007	30 September 2006	1 April 2006
	\$'000	\$'000	\$'000
Increase in operating lease expense accrual	50	29	8
Increase in provision for make good provisions	16	9	2
Total impact on assets	(66)	(38)	(10)

At 1 April 2006 – Retained earnings was decreased by \$9,861 and provisions were increased by \$9,861.

At 30 September 2006 – Retained earnings was decreased by \$38,587 and provisions were increased by \$38,587.

At 31 March 2007 – Retained earnings was decreased by \$66,666 and provisions were increased by \$66,666.

(i-v) *Deferred tax liability*

Under previous NZ GAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of NZ IFRS has resulted in a change in accounting policy. The application of NZ IAS 12 Income Taxes has resulted in the recognition of deferred tax liabilities on revaluations of non-current assets as well as deferred tax balances arising during the year in relation to fair value adjustments on the acquisition of a controlled entity and the equity component of convertible notes issued.

At 1 April 2006, 30 September 2006 and 31 March 2007 the effects on the deferred tax liability of the adoption of NZ IFRS are as follows (tax rate of 33%):

	31 March 2007	30 September 2006	1 April 2006
	\$'000	\$'000	\$'000
Foreign currency translation reserve	(25)	(8)	-
Sick leave provision	-	-	33
Lease incentives	17	10	3
Make good provisions	5	3	-
Derivatives	-	3	-
Increase/(decrease) in deferred tax asset and retained earnings	(3)	8	36

(ii) Reclassifications

(ii-i) *Software reclassification*

Intangible assets are identifiable non-monetary assets without physical substance that are held for their own use or for rental to others. Examples of intangible assets include computer software, licences, patents and copyrights. On adopting NZ IFRS, at 1 April 2006, \$320,223 of software currently classified as property, plant and equipment will be reclassified to intangible assets. At 30 September 2006 \$328,558 of software was classified to intangible assets. At 31 March 2007 \$348,265 of software was reclassified to intangible assets.

	31 March 2007	30 September 2006	1 April 2006
	\$'000	\$'000	\$'000
Increase in intangibles	348	328	320
Decrease in fixed assets	(348)	(328)	(320)
Total impact on assets	-	-	--

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