

MARKET ANNOUNCEMENT:

Managing Director's Briefing Zintel Group Limited Annual General Meeting, 26 August 2008

2008 was a year which resulted in a disappointing Group result in spite of pleasing gains made in some areas.

The year continued to have difficult trading conditions in our traditional businesses as expected, and initiatives we took during the year did not result in achieving either the revenue or profit growth we sought for the Group as a whole. Thus it has been disappointing to see our overall Group revenue decline to \$37.7M from \$40.1M and overall profit before tax decline to \$3.49M from the previous year's \$3.74M. However, a very big part of both these declines was related to the sale of our Enterprise telephony business in Australia in early calendar 2007.

Last year the net profit before tax of \$3.49m was ahead of the previous year's net profit from continued operations before tax of \$3.02m (i.e. disregarding the Australian Enterprise business which was sold). In a tough climate and with much change taking place this was pleasing. In FY09 we are expecting a similar profit result from continuing operations.

MARKET CONDITIONS

Last year I advised the AGM that ...there was complete turmoil in the telecommunications industry, bringing Local Loop Unbundling, Telecom New Zealand's operational separation and a review of mobile termination rates.

I also said that we expected this turmoil to continue and that we expected greater consolidation of service providers and greater competition from established, non-traditional players such as Vodafone.

The good and bad news is that we were right.

There is no better evidence of this turmoil than the recent full year results announcement from Telecom New Zealand, or the unfortunate placing into receivership of Commander Communications in Australia.

We have noticed a downturn in the use of toll free calling as the economies of both Australia and New Zealand soften. This is a trend that is likely to continue while the economies are soft.

In New Zealand the uncertainty created by Local Loop Unbundling and increased competition has led to a period of significant price-based competition in our traditional calling markets. We are seeing incumbent providers respond with significant "whole of business" discounts and rebates on top of already very sharp calling rates.

In the 12 month period to 31 March 2008 some reports have the average price decrease in these categories as high as 16% and this is only partially offset by increases in higher price calling categories such as international and cellular calls.

In response, we have worked hard in partnership with our wholesale carrier providers in both NZ and Australia to improve our buying terms and supply agreements. These efforts have helped to protect margins and profits in our communications businesses from the effects of this price erosion.

We anticipated and budgeted for this pricing pressure trend to continue and again are working hard with our carrier partners for better supply terms, reviewing our cost model and seeking new revenue opportunities – both organically and through acquisition as demonstrated with our June 2007 acquisition of the Concert Telecom customer base in Australia.

We have also been proven right in some of the other messages we delivered at last year's AGM.

There are indeed opportunities created in the current environment for nimble and responsive companies focussed on servicing customer needs with a clear and compelling differentiator. We have found this to be true in both our Communications and Enterprise businesses.

We continue to pursue a strategy based around intimate customer engagement that seeks first to understand our customers' business and drivers for change and then demonstrate expertise in our chosen fields of specialisation. We win new business with this approach as well as maintaining a strong position with existing customers.

The success of this approach has not been lost on the publication "Computerworld" that last week in New Zealand reported on Zintel, and some of our competitors, under the headline "Keep the customer satisfied – no matter how small. Next generation telco's focus on servicing kiwi SME's"

We continue belief in the 3 to 5 year strategy we developed and began implementation of last year namely:

1. Maintaining a clear differentiator in our product and service focus;
2. Being highly responsive to customer needs;
3. Not investing in infrastructure unless there is a compelling financial return;
4. Having a single minded focus on services that represent added value to our target customer segments;
5. Building out the Zintel Group's capability to include a broader capability in Information and Communications technology;

HIGHLIGHTS

There have been a number of highlights in the 2008 year.

1. Firstly, in July 2007 we acquired the business assets of Concert Telecom Pty in Australia. This was a business which was distressed but with its portfolio of customers and services represented an opportunity to add scale to our Australian operation. This business was rapidly integrated into our existing Communications business in Australia. The result has been that that Australian revenue and profit grew, with revenue increasing from NZ\$9.1M in FY07 to NZ\$11.1M in FY08.
2. Secondly, there has been significant reduction in customer churn amongst SME customers in our Communications business in New Zealand. This results from the hard work to maintain long-term customer relationships through superior account management, quality reporting and friendly contracts. The result meant profit levels for this business were maintained at a level in line with the previous year.
3. In February Zintel was acknowledged on Ericsson's world stage by being awarded the Global Innovation Partner of the Year. There were four key projects which ran through the year which contributed to this success:
 - The Tsunami warning system we implemented at North Shore City Council – the phones ring when the Tsunami arrives
 - Wellington City Council's mobility project undertaken in partnership with Vodafone
 - The deployment of video-conferencing equipment for Mobile Surgical Services to enable remote surgery to be performed
 - The Waikato river-level monitoring solution for Mighty River Power – phone in and get the river level
4. I mentioned at last year's AGM that we had signed agreements enabling us to represent Juniper and GMT Workforce Management products in the New Zealand market. We are confident that we have achieved solid traction in these new products and expect them to account for around 7% of FY09 revenue in our NZ Enterprise business.

CHALLENGES

There continue to be a number of challenges for us as a Group and for the individual businesses as we move towards the end of our first half year for FY09.

1. We have been reiterating for a number of years the importance of identifying and executing on acquisition opportunities in both Australia and New Zealand. Much effort has been invested in this activity but the fruits have been sparse. However it is important that we do not relent in pursuing other acquisition opportunities in our industry. We maintain a broad view of potential acquisition targets, including much more sizeable acquisitions than completed so far, as we seek to add to the portfolio of companies within the Group. This remains a significant challenge for us as a Group.
2. In April this year Ericsson of Sweden sold their world-wide Enterprise business to Aastra Technologies of Canada. Thus Zintel is now representing Aastra in New Zealand along with two other distributors. Whilst it is very pleasing to see the new energy and investment that Aastra is providing for these products, the Ericsson name will no longer be associated with CPE-based telephony products and we must rise to the challenge with Aastra of making the brand more recognised in the New Zealand market.
3. The Enterprise business in NZ which is based around providing customers with onsite equipment and services has a solid base of “sticky” customers. Unfortunately the second half of 2008 was very difficult for the business as we made important changes to the sales force capability, but at the same time suffering from delayed purchase decisions. As a result we made a number of management changes, including me as Managing Director taking on the additional role of General Manager for the business. This along with a reduction in operating expenses whilst maintaining our sales focus, is producing benefits which we expect to see in the FY09 performance for our Enterprise business.
4. Subsequent to the final announcement of our year end results Commspec was acquired from DownerEDI Engineering. We see this as being extremely positive for the Group. However at the time of purchase this business was running at a loss, and we are rising to the challenge to invest in this business and expect it to return to sustainable profitability in the new year.
5. We mentioned last year our commitment to fund R&D activity in order to develop new offerings for our markets. Last year no new market offering of significance resulted from this R&D investment. We do need to find success with new initiatives and will continue to make investment.

THE ROAD AHEAD

The Group continues with the strategy to expand the offering it has for customers. We continue to have excellent capability in the technologies which are relevant to contact centres but our reputation is wider than that as we provide an expanded offer to customers. To achieve this, the role of our partners is critical and we believe we are being well supported by our key supply partners in developing opportunities in the markets on both sides of the Tasman.

Critical partners for us are:

Optus	Unitel	GMT Workforce	Telecom New Zealand
Juniper	Aastra	Alcatel-Lucent	TelstraClear
Telstra	Vodafone		

These partners work with us to provide reputable and valued solutions and services and we have a number of significant successes in the past year.

We continue to add to and build on our foundation of loyal customers. Customers with whom we have enjoyed past success provide profitable opportunity for us as long as we introduce new products and services to them.

As a Group we are committed to:

- a. Driving as much improvement and growth in our existing trading businesses as possible. To that end we jealously guard our customer relationships and invest in the people who enable us to do that.
- b. Ensuring that we have the right commercial and operational contracts in place with our partners to bring new products and services to market
- c. Investing in new capability
- d. Adding to our portfolio of operating businesses within the Group by actively identifying acquisition opportunities related to our industry and markets

SUMMARY

In conclusion, we continue to have a solid foundation on which to build for growth.

Overall we are expecting our continuing operations to deliver a similar profit result to last year although trading conditions on both sides of the Tasman remain tough.

We will continue to pursue appropriate acquisition targets.

And finally, our people. We are fortunate that we have significant talent in our businesses – people who work smartly, diligently and with a real commitment to customers. Time and time again I hear from customers about the quality of the work our people do. We frequently and regularly outshine our competition because of the skill and attitude demonstrated by our people. These people are lead by teams of excellent managers in each business. I publicly thank all those at Zintel for what they do and for the commitment they show to the company and our customers.

As a company we look forward to the rest of this financial year. Much of what we do is challenging but rewarding. We are confident as we move forward and expect in due course to deliver the bottom line growth for you, our investors.

ENDS

Background of Zintel Group Limited

Zintel Group Limited (www.zintel.co.nz) comprises two businesses, Communications and Enterprise, which provide businesses with everything from Toll free services to complete state-of-the-art telephony and ICT solutions. Established in 1995 and listed on the NZAX in November 2003, Zintel now employs over 110 staff with offices in Auckland, Sydney, Wellington, Christchurch and Dunedin.

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