

AUDIT REPORT**TO THE READERS OF
LCo NEW ZEALAND LIMITED'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

The Auditor-General is the auditor of LCo New Zealand Limited (the company). The Auditor-General has appointed me, Brent Penrose, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the company, on his behalf, for the year ended 31 December 2006.

Unqualified Opinion

In our opinion:

- The financial statements of the company on pages 1 to 9:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - the company's financial position as at 31 December 2006; and
 - the results of its operations and cash flows for the year ended on that date.
- Based on our examination the company kept proper accounting records.

The audit was completed on 30 March 2007, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;

- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor


The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company as at 31 December 2006. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Board of Director's responsibilities arise from the Financial Reporting Act 1993 and the Crown Entities Act 2004.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the company.



Brent Penrose
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

LCo New Zealand Limited

**Annual Report
For the year ended
31 December 2006**

LCo New Zealand Limited
Statement of Financial Performance
for the year ended 31 December 2006

		31-Dec-06	31-Dec-06	31-Dec-05
			Budget	
	Note	\$	\$	\$
Revenue				
Operational revenue	1	1 026 007	1 151 768	998 703
Software licence fees recoveries		334 292	234 755	214 848
Interest		120 529	112 000	83 634
<i>Total revenue</i>		1 480 828	1 498 523	1 297 185
Expenditure				
Staff costs		148 698	156 600	142 141
Operating expenses	2	620 049	658 824	511 255
Software licence fee		334 292	234 755	214 848
Depreciation and amortisation	3	269 439	270 000	233 203
<i>Total expenditure</i>		1 372 478	1 320 179	1 101 447
Surplus for the year		108 350	178 344	195 738

Statement of Movements in Equity
for the year ended 31 December 2006

		31-Dec-06	31-Dec-06	31-Dec-05
			Budget	
		\$	\$	\$
Surplus for the year		108 350	178 344	195 738
<i>Total recognised revenue and expenses for the year</i>		108 350	178 344	195 738
Capital received		---	---	---
<i>Total movements in equity</i>		108 350	178 344	195 738
Equity at start of the year		2 347 595	2 347 595	2 151 857
Equity at end of the year	6	2 455 945	2 525 939	2 347 595



LCo New Zealand Limited
Statement of Financial Position
as at 31 December 2006

	Note	31-Dec-06 \$	31-Dec-06 Budget \$	31-Dec-05 \$
Current assets				
Cash at bank		44 672	53 982	104 215
Short term deposits		1 420 000	2 000 000	1 275 000
Accounts receivable		188 933	55 000	270 517
Interest receivable		10 849	-	6 216
Pre-payments		283 324	7 000	250 080
GST receivable		-	-	-
Other receivables		37 326	-	53 680
Total current assets		1 985 104	2 115 982	1 959 708
Non-current assets				
Plant & equipment	4	187 381	262 684	319 650
Capitalised development costs	5	265 635	189 771	402 805
Capital work in progress		96 349	37 502	7 502
Total non-current assets		549 365	489 957	729 957
Total assets		2 534 469	2 605 939	2 689 665
Current liabilities				
Accounts payable and accruals		60 132	45 000	48 953
Employee entitlements		2 796	-	3 771
Revenue in advance		-	-	243 388
Other accruals		11 467	-	12 082
GST payable		2 135	30 000	29 414
Provision for annual leave		1 994	5 000	4 462
Total liabilities		78 524	80 000	342 070
Total net assets		2 455 945	2 525 939	2 347 595
<i>Represented by:</i>				
Equity	6	2 455 945	2 525 939	2 347 595

For and on behalf of the Company who authorised the approval of these financial statements on 30 March 2007:


Director


Chairperson

LCo New Zealand Limited
Statement of Cash Flows
for the year ended 31 December 2006

	31-Dec-06	31-Dec-06 Budget	31-Dec-05
Note	\$	\$	\$
Operating activities			
<i>Cash was provided from:</i>			
Customers	1 214 847	1 661 935	1 551 443
Interest received	115 896	112 000	77 418
	<u>1 330 743</u>	<u>1 773 935</u>	<u>1 628 861</u>
<i>Cash was applied to:</i>			
Suppliers and employees	1156 439	1 069 168	1 162 653
Net cash flows from operating	9 <u>174 304</u>	<u>704 767</u>	<u>466 208</u>
Investing activities			
<i>Cash was provided from:</i>			
Sales of non-current assets	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<i>Cash was applied to:</i>			
Purchase of non-current assets	88 847	30 000	89 043
Net cash flows from investing	<u>(88 847)</u>	<u>(30 000)</u>	<u>(89 043)</u>
Financing activities			
<i>Cash was provided from:</i>			
Capital introduced	---	-	-
Net cash flows from financing	<u>---</u>	<u>-</u>	<u>-</u>
Net cash flows for the year	85 457	674 767	377 165
Add cash at start of period	1 379 215	1 379 215	1 002 050
Cash at end of the year	<u>1 464 672</u>	<u>2 053 982</u>	<u>1 379 215</u>
<i>Cash at end of the year comprises:</i>			
Cash at bank	44 672	53 982	104 215
Short term deposits	1 420 000	2 000 000	1 275 000
Cash at end of the year	<u>1 464 672</u>	<u>2 053 982</u>	<u>1 379 215</u>



LCo New Zealand Limited

Statement of Accounting Policies

for the year ended 31 December 2006

Reporting Entity

LCo New Zealand Limited (the "Company") is a company registered under the Companies Act 1993 and a reporting entity for the purposes of the Financial Reporting Act 1993.

The Company provides library solutions to four consortium universities within New Zealand.

The financial statements of the Company have been prepared in accordance with the Financial Reporting Act 1993 and the Crown Entities Act 2004.

Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the Company.

Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial position and financial performance have been applied:

Accounts receivable are recognised at estimated realisable value.

Capitalised development costs are costs associated with development and implementation of products and services currently being utilised by the consortium members for which various fees are charged. Capitalised development costs are amortised over a four year period.

Cash flows. For the purpose of the Statement of Cash Flows, cash includes cash on hand and deposits held at call.

Differential reporting. In accordance with the Framework for Differential Reporting issued by the Institute of Chartered Accountants of New Zealand, the Company fulfils the definition of a qualifying entity because:

- a) the Company does not have public accountability;
- b) there is no separation between the owners and the governing body; and
- c) the Company is not considered large, as defined by the Framework.

The Company has taken advantage of all available differential reporting exemptions with the exception of Financial Reporting Standard (FRS) 10 as a Statement of Cash Flow has been provided.

Employee entitlements. A liability for annual leave is accrued and recognised in the statement of financial position. The liability is equal to the estimated future cash outflows as a result of employee services provided at balance date.

Financial instruments included in the statement of financial position include cash balances, receivables, payables and loans to others. Revenue and costs in relation to all financial instruments are recognised in the Statement of Financial Performance.

Foreign currency transactions have been converted into New Zealand dollars at the exchange rate prevailing at the date of the transaction. Where these transactions are on-charged to the consortium universities, the same foreign exchange rate applies. Foreign exchange gains and losses have been recognised in the Statement of Financial Performance.

Goods and Service Tax (GST). The financial statements have been prepared on a GST exclusive basis with the exception of accounts receivable and accounts payable, which are stated inclusive of GST.

Interest income is accounted for when earned.

Plant & equipment assets are recognised at cost less aggregate depreciation. Plant and equipment assets include hardware and software assets. Depreciation has been calculated for all plant and equipment assets on a straight-line basis for a four year period.

Revenue is accounted for when earned.

Taxation. The Inland Revenue Department treats the Company, for the purposes of income tax, as a charitable organisation. Accordingly no charges for income tax apply or have been provided for.

Changes in Accounting Policies

There have been no changes in accounting policies during the year.



LCo New Zealand Limited
Notes to the 31 December 2006 Financial Statements

Note 1 Operational Income

The company is a consortium of four New Zealand universities. The company provides library solutions to these universities for which various fees are charged. These charges are outlined in note 7.

Note 2 Operating expenses

Operating expenses include:

	31-Dec-06	31-Dec-05
	\$	\$
Auditors - audit fees	6 021	4 500
Directors fees	15 000	15 000
Foreign exchange losses/(gains)	(3 729)	(645)

Note 3 Depreciation and amortisation

	31-Dec-06	31-Dec-05
	\$	\$
Depreciation:		
Hardware	123 747	123 746
Software	8 522	8 522
Amortisation:		
Capitalised development costs	137 170	100 935
	<u>269 439</u>	<u>233 203</u>

Note 4 Plant & equipment

2006	At cost	Less	
		Accumulated depreciation	Net book value
	\$	\$	31-Dec-06
			\$
Hardware	494 988	319 680	175 308
Software	34 087	22 014	12 073
	<u>529 075</u>	<u>341 694</u>	<u>187 381</u>

2005	At cost	Less	
		Accumulated depreciation	Net book value
	\$	\$	31-Dec-05
			\$
Hardware	494 988	195 932	299 056
Software	34 087	13 493	20 594
	<u>529 075</u>	<u>209 425</u>	<u>319 650</u>



Note 5 Capitalised development costs

	At cost	Less	
		Accumulated amortisation	Net book value
2006			31-Dec-06
	\$	\$	\$
Capitalised development costs	548 681	283 046	265 635

	At cost	Less	
		Accumulated amortisation	Net book value
2005			31-Dec-05
	\$	\$	\$
Capitalised development costs	548 681	145 876	402 805

Note 6 Equity

	31-Dec-06	31-Dec-05
	\$	\$
2 085 956 ordinary shares	2 085 956	2 085 956
Retained earnings	369 989	261 639
	<u>2 455 945</u>	<u>2 347 595</u>

Each shareholder has equal voting rights however receive dividends and surplus on winding up according to the number of shares held.



Note 7 Related Parties

The company is a consortium of 4 New Zealand universities - Auckland University of Technology ("AUT"), University of Otago, Victoria University of Wellington and University of Waikato. The company provides library solutions to these universities for which various fees are charged:

		AUT	Otago	Victoria	Waikato	Total
	Year	\$	\$	\$	\$	\$
Total fees charged to related parties	2006	275 752	358 325	349 023	273 688	1 256 788
Total fees charged to related parties	2005	265 762	353 052	318 830	275 907	1 213 551

Included in accounts receivable and other receivables at balance date, the company had outstanding balances with the 4 consortium universities:

	Year	AUT	Otago	Victoria	Waikato	Total
		\$	\$	\$	\$	\$
Accounts receivable	2006	36 727	40 753	988	-	78 468
Other receivables	2006	8 735	9 371	10 460	8 807	37 373
		45 462	50 124	11 448	8 807	115 841
Accounts receivable	2005	92 584	3 108	99 745	75 080	270 517
Other receivables	2005	12 641	14 141	13 949	12 949	53 680
		105 225	17 249	113 694	88 029	324 197

Note 8 Commitments and Contingences

At balance date the company had no capital commitments or outstanding contingencies.

Other commitments:

	Network Hosting 31-Dec-06 \$	Network Hosting 31-Dec-05 \$
Due not later than one year	452 483	241 704
Due between one and two years	452 483	-
Due between two and five years	452 483	-
Due later than five years	-	-
	1 357 449	241 704



Note 9 Reconciliation of surplus for the year with net cash flows from operating activities

	31-Dec-06	31-Dec-05
	\$	\$
Surplus from the Statement of Financial Performance	108 350	195 738
Add / (Less) Changes in working capital items		
Decrease / (Increase) in accounts receivable	60 061	(31 126)
Increase / (Decrease) in accounts payable	(17 690)	(179 457)
Increase / (Decrease) in revenue in advance	(243 388)	243 388
Increase / (Decrease) in annual leave provision	(2 468)	4 462
Net movements in working capital items	(203 485)	37 267
Add / (Less) Items included in Surplus of a non-cash nature		
Depreciation and amortisation	269 439	233 203
Net movement of items included in Surplus of a non-cash nature	269 439	233 203
Net cash inflow from operating activities	174 304	466 208