

AUDIT REPORT**TO THE READERS OF
LCO NEW ZEALAND LIMITED'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

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 2005.

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 2005; 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 27 February 2006, 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 2005. 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 Directors responsibilities arise from the Public Finance Act 1989, and the Financial Reporting Act 1993.

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 and section 43(1) of the Public Finance Act 1989.

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 2005**


LCo New Zealand Limited
Statement of Financial Performance
for the year ended 31 December 2005

		31-Dec-05	31-Dec-05	31-Dec-04
	Note	\$	Budget \$	\$
Revenue				
Operational revenue	1	998 703	1 142 606	622 161
Software licence fees recoveries		214 848	---	---
Interest		83 634	11 300	5 912
<i>Total revenue</i>		1 297 185	1 153 906	628 073
Expenditure				
Staff costs		142 141	153 000	82 917
Operating expenses	2	511 255	617 231	357 157
Software licence fee		214 848	---	---
Depreciation and amortisation	3	233 203	201 028	122 098
<i>Total expenditure</i>		1 101 447	971 259	562 172
Surplus for the year		195 738	182 647	65 901

Statement of Movements in Equity
for the year ended 31 December 2005

		31-Dec-05	31-Dec-05	31-Dec-04
		\$	Budget \$	\$
Surplus for the year		195 738	182 647	65 901
<i>Total recognised revenue and expenses for the year</i>		195 738	182 647	65 901
Capital received		---	---	2 085 956
<i>Total movements in equity</i>		195 738	182 647	2 151 857
Equity at start of the year		2 151 857	1 000 567	-
Equity at end of the year	6	2 347 595	1 183 214	2 151 857

The budget amounts for 2005 are not subject to audit. The Statement of Accounting Policies and the Notes to the Financial Statements form part of and should be read in conjunction with these Statements.

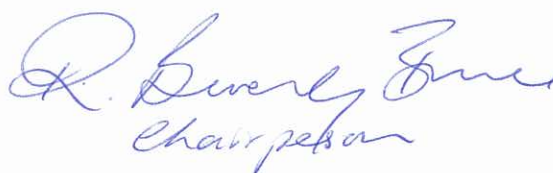
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LCo New Zealand Limited
Statement of Financial Position
as at 31 December 2005

		31-Dec-05	31-Dec-05 Budget	31-Dec-04
	Note	\$	\$	\$
Current assets				
Cash at bank		104 215	193 190	102 050
Short term deposits		1 275 000	60 000	900 000
Accounts receivable	7	270 517	87 610	206 790
Interest receivable		6 216	-	-
Pre-payments		250 080	-	6 174
GST receivable		-	-	124 491
Other receivables	7	53 680	-	211 910
Total current assets		1 959 708	340 800	1 551 415
Non-current assets				
Plant & equipment	4	319 650	432 762	451 918
Capitalised development costs	5	402 805	270 276	263 229
Capital work in progress		7 502	180 001	158 972
Total non-current assets		729 957	883 039	874 119
Total assets		2 689 665	1 223 839	2 425 534
Current liabilities				
Accounts payable and accruals		48 953	28 385	114 528
Employee entitlements		3 771	12 240	3 026
Revenue in advance		243 388	-	-
Other accruals		12 082	-	156 123
GST payable		29 414	-	-
Provision for annual leave		4 462	-	-
Total liabilities		342 070	40 625	273 677
Total net assets		2 347 595	1 183 214	2 151 857
<i>Represented by:</i>				
Equity	6	2 347 595	1 183 214	2 151 857

For and on behalf of the Company who authorised the approval of these financial statements on 27 February 2006:


DIRECTOR


Chairman

The budget amounts for 2005 are not subject to audit. The Statement of Accounting Policies and the Notes to the Financial Statements form part of and should be read in conjunction with these Statements.

LCo New Zealand Limited
Statement of Cash Flows
for the year ended 31 December 2005

	31-Dec-05	31-Dec-05 Budget	31-Dec-04
Note	\$	\$	\$
Operating activities			
<i>Cash was provided from:</i>			
Customers	1 551 443	1 144 033	203 462
Interest received	77 418	11 300	5 912
	<u>1 628 861</u>	<u>1 155 333</u>	<u>209 374</u>
<i>Cash was applied to:</i>			
Suppliers and employees	1162 653	765 045	297 062
Net cash flows from operating	9 466 208	390 288	(87 688)
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	89 043	210 322	40 262
Net cash flows from investing	(89 043)	(210 322)	(40 262)
Financing activities			
<i>Cash was provided from:</i>			
Capital introduced	---	-	1130 000
Net cash flows from financing	---	-	1130 000
Net cash flows for the year	377 165	179 966	1 002 050
Add cash at start of period	1 002 050	73 224	-
Cash at end of the year	1 379 215	253 190	1 002 050
<i>Cash at end of the year comprises:</i>			
Cash at bank	104 215	193 190	102 050
Short term deposits	1 275 000	60 000	900 000
Cash at end of the year	1 379 215	253 190	1 002 050

The budget amounts for 2005 are not subject to audit. The Statement of Accounting Policies and the Notes to the Financial Statements form part of and should be read in conjunction with this Statement.


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