REPLACEMENT

PROSPECTUS XERO LIMITED

(INCORPORATED IN NEW ZEALAND UNDER THE COMPANIES ACT 1993 WITH REGISTERED NUMBER 1830488)

AUSTRALIAN ORGANISATION NUMBER 160 293 630

This Prospectus is a replacement Prospectus and is being lodged with ASIC in accordance with sections 718 and 719 of the Corporations Act. This replacement Prospectus replaces the prospectus lodged with ASIC on 10 October 2012. This replacement Prospectus has been issued to facilitate an application for the admission of Xero Limited to the Official List of the Australian Securities Exchange (ASX). Only one share will be offered on the basis of this replacement Prospectus. The Offer of that one share is solely to satisfy a regulatory requirement regarding the proposed admission of Xero Limited to the Official List of the ASX.

DATED: 18 OCTOBER 2012

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1 CORPORATE DIRECTORY

Directors

Rodney (Rod) Kenneth Drury – Executive Director
Ian Samuel (Sam) Knowles – Non-Executive Chairman
Samuel Gareth (Sam) Morgan – Non-Executive Director
Graham John Shaw – Non-Executive Director
Andrew Craig (Craig) Winkler – Non-Executive Director
Craig Wesley Elliott – Non-Executive Director

Management

Rod Drury – Chief Executive, Co-founder
Ross Jenkins – Chief Financial Officer
Alastair Grigg – Chief Operating Officer
Paul Williams – General Manager Finance
Natasha Hubbard – General Manager Human Resources
Paula Jackson – General Manager Marketing
Duncan Ritchie – General Manager Operations
Leanne Graham – Country Manager (New Zealand)
Chris Ridd – Managing Director (Australia)
Gary Turner – Managing Director (United Kingdom)
Jamie Sutherland – President (United States)

Company Secretary

Ross Jenkins

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Share Registrar

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2 IMPORTANT INFORMATION

2.1 REPLACEMENT PROSPECTUS

A copy of this replacement Prospectus dated 18 October 2012 (this "Prospectus") has been lodged with ASIC. ASIC takes no responsibility for the content of the Prospectus.

The Prospectus replaces a prospectus dated 10 October 2012 relating to Xero.

No securities will be offered, allotted or issued on the basis of this Prospectus in New Zealand or any other jurisdiction, other than Australia. Only one Share will be offered in Australia on the basis of this Prospectus. The Offer of that one Share is solely to satisfy a regulatory requirement regarding the proposed admission of Xero to the Official List of the ASX. This Prospectus is being issued as a requirement of the application for the admission of Xero to the Official List of the ASX.

The expiry date of this Prospectus is 31 December 2012. No securities will be allotted or issued on the basis of this Prospectus after such expiry date. No person has been authorised to give any information or make any representation other than contained in this document and, if given or made, such information or representation must not be relied on as having been so authorised.

This Prospectus is available in electronic form on the Internet at http://www.xero.com/about/investors. Any person receiving this Prospectus electronically may obtain a paper copy of this Prospectus (free of charge) by calling the Company on +64 4 819 4800.

Xero is listed on the NZX Main Board in New Zealand. The NZX Main Board is an equities market operated by NZX Limited. NZX Limited has not examined or approved the contents of this document.

Certain terms and abbreviations used in this Prospectus have defined meanings which are explained in the Glossary.

2.2 IMPORTANT STATEMENTS REGARDING ASX LISTING

The fact that the ASX may admit Xero to its Official List is not to be taken in any way as an indication of the merits of the Company. The ASX (and its officers) takes no responsibility for the contents of this Prospectus.

Xero has been listed on the NZX Main Board since 5 June 2007 and has at all times complied with its continuous disclosure obligations under the NZX Listing Rules.

This Prospectus is intended to be read in conjunction with the publically available information lodged with NZX Limited. Ordinary Shares issued by Xero are quoted on the NZX Main Board, operated by NZX Limited, under the ticker code XRO. As a listed Company, Xero is subject to disclosure obligations which require it to notify certain material information to NZX Limited for the purpose of that information being made available to participants in the NZX Main Board securities market. A copy of the material information notified to NZX Limited may be viewed and obtained on its website at http://www.nzx.co.nz/ under the ticker code XRO.

Xero has sought and obtained certain relief from ASX in respect of a number of ASX Listing Rule requirements, further details of which are set out in section 5.4.

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2.3 FORWARD LOOKING STATEMENTS

Certain statements in this Prospectus constitute "forward looking statements". "Forward looking statements" includes all statements other than statements of historical facts, including Xero's financial position, business strategy, plans and objectives for management for future operations and any statements preceded by "estimates", "expects", "aims", "intends", "can", "may", "anticipates", "would", "should", "could", or similar expressions or the negative thereof.

Forward looking statements involve known and unknown risks, uncertainties and other important factors beyond Xero's control that could cause actual results, performance or achievements of Xero to be materially different from the future results, performance, or achievements expressed or implied by such forward looking statements.

Forward looking statements are based on numerous assumptions regarding Xero's present and future business strategies and the environment in which Xero will operate in the future. Among the important factors that could cause Xero's actual results, performance or achievements to differ materially from those in the forward looking statements include those factors in section 9 of this Prospectus titled "Risk Factors" and elsewhere in this Prospectus.

These forward looking statements speak only as at the date of this document. Except as required by applicable law or regulation, the Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based. As a result of these factors, the events described in the forward looking statements in this document may not occur.

2.4 CURRENCY

Unless otherwise specified, a reference to NZD, NZ$ or $ is a reference to New Zealand dollars, and a reference to AUD, AUD$ or A$ is a reference to Australian currency. On 28 September 2012 the NZD/AUD exchange rate was NZD$1.00:AUD$0.7953.

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3 CHAIRMAN'S LETTER

Dear Investor

Since Xero was listed on the NZX Main Board on 5 June 2007, it has built a successful online accounting business based primarily in New Zealand. As Xero has continued to grow, Xero has raised additional capital and utilised the increased revenue to successfully invest in the global growth of its business, particularly in Australia, the United States and the United Kingdom.

Australia has over 1,200 accounting partners for Xero countrywide and has recently surpassed New Zealand as the fastest growing region for Xero internationally. As a consequence, the interest in Xero as an investment opportunity has also increased. However, despite an increase in interest, cross Tasman investment has remained cumbersome. Accordingly, to facilitate Australian investors' ability to easily trade in Xero securities, the Board considers it is appropriate and desirable for Xero to seek a secondary listing on the ASX.

In addition to providing a simpler trading platform for Australian investors, an ASX listing will benefit all Xero shareholders by providing Xero with exposure to the Australian investment market – a market that is significantly bigger and more sophisticated than the New Zealand investment market.

As Xero is already well funded it will not be seeking to raise any funds as part of the listing. The one share issued under this Prospectus is solely to satisfy regulatory requirements as part of the listing process.

In summary, I would encourage you to read this Prospectus and consider Xero as an exciting growth stock with substantial global potential.

S. Knowles

Sam Knowles
Chairman – Xero Board

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4 COMPANY OVERVIEW

4.1 THE COMPANY

Xero was incorporated on 6 July 2006 under the New Zealand Companies Act 1993 by Rod Drury, an experienced New Zealand based technology entrepreneur who has a record of building successful software businesses, and Hamish Edwards, the owner of a small and medium sized enterprises accounting business and a published commentator on such enterprises.

Xero was admitted to trading on the NZX Main Board on 5 June 2007. Xero successfully completed a placement of 15,000,000 Shares at NZD$1.00 per Share for gross proceeds of approximately NZD$15 million from its initial public offering in 2007. Subsequently Xero has raised a further NZD$68 million via a number of private placements and share purchase plans. Xero is a fast growing company with operations in Wellington, Auckland, Melbourne, Canberra, Sydney, Brisbane, San Francisco and Milton Keynes.

Xero has a substantial partner and customer base in Australia and, accordingly, with this Prospectus, seeks a secondary listing on the ASX to make it more convenient for Australian based interested parties, including partners and customers, to acquire Shares in Xero.

Employee Restricted Share Plan

In May 2008 the Xero Limited Employee Restricted Share Plan (RSP) was introduced for selected executives and employees of the Xero Group. Under the RSP, ordinary Shares in Xero Limited are issued to a trustee, Xero Trustee Limited, a wholly-owned subsidiary, and allocated to participants, on grant date, using funds lent to them by the Company.

Under the RSP, the Shares are beneficially owned by the participants. The length of retention period before the Shares vest is between one and three years. The price for each Share issued during the year under the RSP is the higher of the volume-weighted average end-of-day market price reported on the NZX Main Board for the 20 business days immediately preceding the date on which the Share is allocated or the invitation price.

If the individual is still employed by the Xero Group at the end of this specific period, the employee is given a cash bonus that must be used to repay the loan and the Shares are then transferred to the individual. The number of Shares awarded is determined by the Remuneration Committee of the Board of Directors. The Group has no legal or constructive obligation to repurchase the Shares or settle the RSP for cash.

Employee (USA) Share Option Scheme

The Board approved the establishment of the Xero Limited Employee (USA) Share Option Scheme (the Scheme) in January 2012. The Scheme has been established to enable key contributors to the potential success of the Company to share in that success by giving them a stock option to purchase ordinary Shares in the Company at an agreed price. The Scheme provides participants with an opportunity to benefit financially if the Company is successful and the Shares become worth more than the agreed exercise price.

The options are granted by Xero issuing an option certificate to the employee that will include, amongst other things, the date of the grant, the number of options granted (one option gives the right to purchase one Share), the exercise price at which the Shares may be purchased and the timing of the entitlement to exercise the options. If an employee ceases to be employed by Xero, any unvested and unexercised options will automatically cancel and any vested options as at the date of that employee's termination may only be exercised for 30 days following such termination (or six months if termination is due to death or disability).

The Scheme has a term of 10 years (unless terminated earlier) and the maximum aggregate number of Shares that may be granted under the Scheme is 2,200,000 Shares.

4.2 COMPANY STRUCTURE

Xero has the following wholly owned subsidiaries:

Subsidiary	Principal Activity	Country of Incorporation
Xero Australia Pty Limited	Limited risk distributor	Australia
Xero Inc	Limited risk distributor	United States
Xero (UK) Limited	Limited risk distributor	United Kingdom
Xero Trustee Limited	Trustee	New Zealand
Max Solutions Holdings Limited	Intermediate Holding company	New Zealand
Max Solutions Limited	Business software developer	New Zealand
Spotlight Workpapers Limited	Business software developer	New Zealand
My Workpapers Limited	Non-trading	New Zealand
Subsidiary	Principal Activity	Country of Incorporation

4.3 PRODUCT

Xero provides an online accounting system that provides small businesses with a clear picture of the money that flows in and out of their businesses, helping them maintain an accurate picture of their financial situation at all times via the Internet. Using Xero, small businesses can import their bank transaction information, which saves significant time and moves small businesses into real time accounting. As with online banking, Xero can be accessed through the Internet anywhere at any time.

The Xero system currently includes features such as bank transaction importing, a cashbook, a general ledger, invoicing, accounts receivable, accounts payable, fixed assets, payroll (Australia), GST, financial reporting and management of expense claims.

In addition to the small business accounting system, Xero also provides a range of tools to enable accounting practices to more efficiently produce both monthly and annual accounts for their business clients.

Xero also has a personal finance management product, providing a simple method of accounting for an individual's or household's cashflows.

A summary of the various products is outlined in the diagram below.

SMALL MEDIUM LARGE

PERSONAL

PAYROLL (AU)

PARTNER EDITION
CASHBOOK, LEDGER

REPORTING

PRACTICE MANGEMENT WORKPAPERS (NZ/AU) TAX (AU)

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4.4 CURRENT OPERATING RESULTS – 30 SEPTEMBER 2012

Outlined below are the most recent Operating highlights – these demonstrate the growth being achieved by the Company.

- First half operating revenue to 30 September 2012 is expected to exceed $16.7m. This compares to $7.9m for the corresponding period last year.
- Annualized Monthly Committed Revenue (MCR) at 30 September 2012 is $38.7m, up from $18.0m at 30 September 2011, or +115% growth.
- Offshore revenue is 58% of MCR.
- Grown staff from 148 to 278 in the last year.
- Paying customers are at 111,800 at 30 September 2012, up from 51,300 at the same date last year, or +118% growth.

Regional customer breakdown

Paying customers	As at 30 Sept 2012	As at 30 Sept 2011	Year on year change
New Zealand	57,300	30,600	+87%
Australia	32,500	10,400	+213%
United Kingdom	15,100	7,300	+107%
United States/Global	6,900	3,000	+130%
Total	**111,800**	**51,300**	**+118%**

Commentary

Xero has continued its growth agenda for the first six months of FY 2013. Over the past year 130 new jobs have been created, significantly increasing the development and support capability in NZ and expanding the organisation in its key markets of Australia, the United Kingdom and the USA.

Xero's paying customer base has grown an additional 118% to 111,800 as at 30 September 2012. The Australian region has shown particularly strong growth, with a tripling of the numbers of paying customers, on the back of the integrated payroll features and significant growth in numbers of accounting and bookkeeping partners.

Xero has increased its capability to support this significant growth and provide a platform for continued rapid expansion. Staff numbers have grown from 140 to 278 during the year to 30 September 2012, with over a quarter of those now offshore. New offices have been established in San Francisco, Canberra and Milton Keynes and Xero has relocated to larger premises in Melbourne, Auckland and Wellington.

Scaling the business so that it can gain traction in large overseas markets has, so far, gone to plan. The Company is continuing to invest in its internal infrastructure, systems and personnel around the globe in order to build a platform for significant growth in offshore markets and maintain momentum. This will result in continued losses, at least for the next year.

Despite these projected losses, Xero considers that its strong cash position, product innovation, focus on developing a channel of advisors, thriving ecosystem and five years of investment, place Xero in a strong position to seek to achieve its goal of building the business to support customer acquisition in large overseas markets and gain a million customers worldwide.

4.5 FINANCIAL POSITION

Details of the Company's financial position are set out in section 8.

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5 ASX LISTING

5.1 OVERVIEW

Xero is currently listed on the NZX Main Board. The NZX Main Board is an equities market operated by NZX Limited. Xero is now seeking a secondary listing on the ASX (by way of a compliance listing as a foreign entity).

This Prospectus is prepared by the Company in connection with its application for admission to the Official List of the ASX. The Company has lodged its application for admission to the Official List of the ASX on or about the date of this Prospectus (ASX Admission Application).

5.2 RATIONALE FOR SECONDARY LISTING

Xero considers that the proposed Secondary Listing has the following strategic benefits for the business:

- improved visibility, product awareness and marketing opportunities within Australia.
- improved liquidity;
- improved access to capital markets; and
- improved ability to invest for Australian based interested parties.

5.3 NO FUND RAISING

Xero has enough working capital to carry out its current business plans and objectives. The one Share to be offered under this Prospectus is solely to comply with regulatory requirements and does not represent fund raising.

The Company has not raised any capital, including in Australia, in the three months prior to the date of this Prospectus and will not raise capital in Australia in the three months after the date of this Prospectus.

5.4 ASX WAIVERS & DISCLOSURE

The Company has applied for waivers and confirmations from the ASX which are standard for a New Zealand company listed on the ASX (including confirmation that ASX will accept accounts denominated in New Zealand dollars and prepared and audited in accordance with New Zealand generally accepted accounting principles and New Zealand auditing standards).

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6 STOCK EXCHANGE INFORMATION

Xero's Shares are currently quoted on the NZX Main Board, operated by NZX Limited, under the ticker code XRO and have traded on the NZX Main Board since the Company's admission on 5 June 2007. Details of the trading history for the last 12 months are shown below:

Table 6.1 – Share Price Range

Prices (12 Months)	
Highest Price	NZD$5.80(approximately AUD$4.61)
Lowest Price	NZD$2.41 (approximately AUD$1.92)
Closing Price (as at 30 September 2012)	NZD$5.20 (approximately AUD$4.14)

6.1 CAPITAL STRUCTURE

Ordinary Shares	107,188,024
Warrants	N/A
Options	582,397
Fully diluted	107,770,421

Table 6.2 – Share Issues since Xero's listing on the NZX Main Board

As at the date of this Prospectus Xero has 107,188,024 Shares on issue.

Date of Issue	No. of Shares Issued (000s)	Total Shares on Issue (000s)	Explanation
June 2007	15,000	55,000	IPO shares
November 2009	461	55,461	Employee Restricted Share Plan issue
April 2009	5,777	61,238	Private Placement
May 2009	20,000	81,238	Private Placement
May 2009	6,495	87,733	Share Purchase Plan
June 2010	598	88,331	Employee Restricted Share Plan issue
October 2010	2,681	91,012	Private Placement
June 2011	550	91,562	Employee Restricted Share Plan issue
August 2011	606	92,168	Issue of Shares for Acquisition of Assets
December 2011	393	92,561	Issue of Shares to selected executives
February 2012	7,273	99,834	Private Placement
March 2012	5,686	105,520	Share Purchase Plan
March 2012	1,262	106,782	Issue of Shares for Acquisition of Company
July 2012	58	106,840	Issue of Shares for Acquisition of Company
July 2012	348	107,188	Employee Restricted Share Plan issue

6.2 POTENTIAL ISSUE OF ORDINARY SHARES

Xero has 582,397 options outstanding exercisable over the Shares, as follows:

Table 6.2 – Options on Issue

Date of Grant	Exercisable From	Exercisable To	Exercise Price (NZD$)	Conversion to Shares (000s)
January 2012	January 2013	January 2018	2.75	200
April 2012	April 2013	April 2016	3.82	140
July 2012	July 2013	July 2016	5.31	142
October 2012	October 2013	October 2016	4.97	100
Total				**582**

6.3 SUBSTANTIAL SHAREHOLDINGS

The following table sets out the spread of Shareholders as at 30 September 2012

Table 6.5 – Shareholders Spread

Range	No. of Shareholders	Shares (000s)	Percentage %
0–1,000	803	448	0.4
1,001–5,000	1,018	2,758	2.6
5,001–10,000	495	3,661	3.4
10,001–100,000	550	12,198	11.4
100,001 and over	58	88,123	82.2
Total	2,924	107,188	100.0

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The following table sets out the top 20 Shareholders as at 30 September 2012.

Table 6.6 – Top 20 Shareholders

	Name	Amount	Percentage %
1	Anna Drury & Kenneth Drury (Rod Drury)	22,553,113	21.0
2	Givia Pty Limited (Craig Winkler)	20,954,545	19.5
3	Hamish Edwards & Tineke Edwards & Andrew Finch	6,125,632	5.7
4	Jasmine Investment Holdings Limited (Sam Morgan)	6,122,609	5.7
5	New Zealand Central Securities Depository Limited	5,190,847	4.8
6	Valar Ventures LP	4,135,870	3.9
7	Bank of New Zealand	2,177,778	2.0
8	Nicola Wilson & David Wilson & Christopher Ritchie	1,812,819	1.7
9	Anna Grigg & Alastair Grigg & Claymore Trustees Limited	1,351,776	1.3
10	Graham Shaw & Delwyn Shaw	1,336,010	1.2
11	Xero Limited (Employee Restricted Share Plan)	1,157,562	1.1
12	FNZ Custodians Limited	985,585	0.9
13	W5 Limited	965,561	0.9
14	Nelson Wang & Pei-Chun Ko	879,462	0.8
15	JB Were (NZ) Nominees Limited	744,789	0.7
16	Craig Walker & Catherine Walker	738,898	0.7
17	Gavin George & Jacquetta George	630,915	0.6
18	Spence Corporate Trustee Limited	630,915	0.6
19	Gareth Morgan & Joanne Morgan & Charles Purcell	545,455	0.5
20	Ravere Pty Limited	503,636	0.5

7 DIRECTORS & MANAGEMENT

7.1 DIRECTORS' PROFILES

Rodney Kenneth Drury (Rod) – Chief Executive/Executive Director

One of New Zealand's leading technology entrepreneurs, Rod is a member of the New Zealand Hi-Tech Hall of Fame, NZ Hi-Tech Entrepreneur of the Year in 2006 and 2007, World Class New Zealander for ICT in 2008 and an Honorary Fellow of the NZ Computer Society.

Rod is a director of NZX Limited the operator of the New Zealand Stock Exchange and is a member of Victoria University of Wellington Faculty of Commerce Advisory Board.

Ian Samuel Knowles (Sam) – Non-Executive Chairman

Sam has held senior positions in major banks in both Australia and New Zealand and has extensive experience in strategy, marketing, organisational capability building, and private and public sector governance.

Sam is perhaps best known for his role in establishing Kiwibank and subsequently leading the company over ten years through its transition from start-up to a large successful business.

Sam has recently taken up a number of governance roles in growth businesses with a technology focus. These roles include Chairman of the Governments ICT Council and Fingertapps and a Director of Magritek, PartnersLife, Rangatira and Trustpower.

Samuel Gareth Morgan (Sam) – Non-Executive Director

Sam started his career at Deloitte Consulting and is best known for founding online auction website Trade Me which, in 2006, sold for NZD$750 million.

He is a director of Trade Me group which is listed in Australia and New Zealand and is also a director of Fairfax Media Limited an ASX200 company.

In addition, Sam spends a great deal of his time involved in philanthropic activities and also as an investor in smaller companies.

Graham John Shaw – Non-Executive Director

Graham is a Chartered Accountant with 30 years experience in business. A member of a number of corporate, statutory and not-for-profit boards. He remains a representative of Downer New Zealand (formerly Works Infrastructure) and is Chair of the Chartered Professional Engineers Council.

Graham spent 10 years with KPMG primarily as an advisor to businesses. He then joined Works Infrastructure where he held a number of finance roles before being appointed Chief Executive, leading the company to substantial growth and successful expansion into Australia. Graham has also been CEO of Kensington Swan, one of New Zealand's national law firms.

Graham is a Member of the New Zealand Institute of Chartered Accountants and the Institute of Directors in New Zealand, a Fellow of the New Zealand Institute of Management and a Companion of the Institution of Professional Engineers of New Zealand.

Andrew Craig Winkler (Craig) – Non-Executive Director

Craig co-founded Australian small business accounting software provider MYOB in 1991.

Craig went on to build up a team around him that made MYOB a popular business tool and brand in Asia, New Zealand, the USA, the United Kingdom and Ireland.

In 2004, MYOB merged with Solution 6 to become Australia's largest IT company with more than 1,000 staff globally. Craig resigned as director and chief innovation executive at MYOB in 2009 upon its purchase by Archer Capital.

Craig Wesley Elliott – Non-Executive Director

Craig Elliott co-founded and is CEO of Pertino Networks, a cloud networking software company based in Silicon Valley. He is also a Strategic Advisor at New Zealand Trade and Enterprise in respect to Angel, VC and PE markets, helping guide New Zealand high growth technology companies to enter markets in the United States.

Craig is a previous CEO of Packeteer, taking the company from three people to IPO, spent ten years at Apple in senior product, marketing and GM roles, and has written several bestselling books.

7.2 DIRECTORS' INTERESTS IN THE COMPANY

As at the date of this Prospectus (and as expected to be immediately following admission to the ASX) detailed below are the holdings of the Directors and of any Associated Person of them in the Share capital of the Company.

Name	No. of Ordinary Shares (000s)	No. of Options	% held of Issued Share Capital
Rod Drury	22,553	n/a	21.0
Craig Elliott	–	100,000	–
Sam Knowles (sum of two holdings)	569	n/a	0.5
Sam Morgan	6,123	n/a	5.7
Graham Shaw	1,336	n/a	1.2
Craig Winkler (sum of two holdings)	20,976	n/a	19.6

7.3 DIRECTORS' FEES

The maximum aggregate remuneration able to be paid to non-executive Directors (being the monetary sum payable to all non-executive Directors taken together, including directors of subsidiaries of Xero) is NZD$500,000 per annum.

As at the date of this Prospectus (and as expected to be immediately following admission to the ASX) detailed below are the fees paid to each of the Directors of Xero for the years ended 31 March.

Name	2012 NZD $000s	2011 NZD $000s
Rod Drury	Nil*	Nil*
Sam Knowles	47	12**
Sam Morgan	40	40
Graham Shaw	40	40
Craig Winkler	40	40
Craig Elliott	Nil***	Nil***

* Rod Drury received remuneration from Xero in the form of salary and cash bonus. His total remuneration for 2012 was $NZD255,000 and for 2011 was $NZD256,000.

** Sam Knowles joined the Board in December 2010.

*** Craig Elliott joined the Board in September 2012.

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8 FINANCIAL AND TAXATION INFORMATION

8.1 FINANCIAL STATEMENTS

Financial statements in NZD$ for Xero for the years ended 31 March 2012, 31 March 2011 and 31 March 2010 are set out in Annexure A. The consolidated statements of comprehensive income, changes in equity, financial position, and cash flows and the accompanying notes have been independently audited by Xero's auditors, PricewaterhouseCoopers.

The financial statements of Xero have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with New Zealand Equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards.

8.2 EVENTS SUBSEQUENT TO 31 MARCH 2012

In July 2012 Xero announced the acquisition of Spotlight Workpapers Limited for NZD$800,000, payable in cash and Shares with a deferred compensation component. The Spotlight Workpapers software is in beta use by accounting and bookkeeping partners across Australia and New Zealand. Xero will continue to build out the functionality and scalability of the software and release it under the Xero brand in March 2013 for the Australian and New Zealand markets

There have been no other significant events subsequent to 31 March 2012.

8.3 COMPANY TAX STATUS

Xero is a tax resident of New Zealand and not a tax resident of Australia. The proposed ASX listing in itself does not have a direct effect on the tax residency of Xero.

9 RISK FACTORS

In addition to the usual risks associated with a business at a relatively early stage of its development, the Directors consider the following risk factors to be the most significant and should be carefully considered and read in conjunction with this document and all (publicly available) historical documentation lodged with NZX.

If any of the following risks actually occur, the Company may not be able to conduct the business as currently planned and the Company's business or financial condition could be materially adversely affected. In such case, the market price of the ordinary Shares could decline and Shareholders may lose all or part of their investment. However, the risks listed do not necessarily comprise all of those associated with an investment in the Company. Additional risks not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse affect on the Company.

Investors should also take their own tax advice as to the consequences of owning Shares in the Company, as well as receiving returns from it. No representation or warranty, express or implied, is given to investors as to the tax consequences of their acquiring, owning or disposing of any Shares in the Company and neither the Company nor the Directors will be responsible for any tax consequences for any such investors.

9.1 RISKS RELATING TO SHARES

The principal risk to investors is that they may not be able to recoup their original investment or they may not receive the returns they expect. This could happen for a number of reasons, including that:

- The price at which the Shares trade may be lower than the price paid for them.
- Investors are unable to sell their Shares because the market for them becomes illiquid or ceases to exist.
- The operational and financial performance of Xero is worse than expected.
- Xero becomes insolvent and is placed in receivership or liquidation.

In the event of insolvency of Xero, Shareholders would not receive any payment in respect of their Shares until Xero has paid all its other creditors, both secured and unsecured, including the costs of liquidation or receivership. Any funds remaining after the payment of Xero's debts in full would be distributed to Shareholders in proportion to their respective Shareholdings. As a result, Shareholders may receive less than the amount initially invested.

9.2 RISKS RELATING TO INVESTING IN XERO

Xero is a technology business and, accordingly, it is a higher risk investment than shares in other sectors with more stable earnings records. There is a track record of early success with customer acquisition, however there is no certainty that its business plan and strategies will be successful. The key risk factors for Xero include:

- Unproven market for its product offering – The international market for its software is at a relatively early stage of development and the level of demand for its products/services is uncertain. Xero primarily relies on a single product offering. The failure of that product to achieve and maintain market acceptance, particularly in any of Australia, the United States or the United Kingdom, would adversely affect its business. If it fails to develop new products/services in a timely manner then its revenues will be adversely affected.

- Failure to compete – Xero may not be able to compete successfully against its current, and any future, competitors, particularly in overseas markets. The potential response of Xero's competitors to its product offering, and future products/services, is unknown.

- Failure to deal with growth – Xero's business is growing rapidly and if Xero fails to properly manage that growth, then that failure could harm its business. Any failure to meet customer demand properly could adversely affect the business, including demand for Xero's products/services, revenue collection, customer satisfaction and public perception.

- Failure to retain personnel – Any failure to generally attract, retain and effectively manage qualified personnel could adversely affect its business. In particular, Xero has been dependent, in its initial stages, on the experience and expertise of its Chief Executive, Rod Drury. Over time, Xero's reliance on Rod, and his experience and expertise and understanding of Xero's business and strategy, has reduced as Xero's management team has grown and become more established. However, the loss of Rod, for whatever reason, could have an adverse effect on Xero and its future prospects.
- Loss-making for foreseeable future – Xero will be very much focusing on establishing and then growing its business. Accordingly, it expects to make further losses and have negative cash flow in at least the short term.
- Lack of additional funding – Xero may require additional funding in the future to maintain and/or expand its business, and such funding may not be available on favourable terms or may not be available at all.

9.3 RISKS RELATING TO XERO'S BUSINESS

Given the nature of Xero's business, there are a number of risk factors that apply particularly to it. Some of these risk factors apply generally to the technology industry. These risk factors may, individually or in combination with other risk factors, affect the future operating performance of Xero and the value of an investor's investment in Xero. These risk factors include:

- Dependence on the Internet – Xero's business is based on online applications. Accordingly, its business is dependent on the continued existence and functionality of the Internet.
- Security risks – Xero is reliant on data transmission over the Internet. While best practices are adopted by Xero, there will be new security threats by third parties on an ongoing basis. Any security risks that cannot be mitigated by Xero may adversely affect sales, or potential sales, of its products/services.
- Third party failure – Xero is reliant on a number of third parties to provide essential services on an outsourced basis. A failure for any reason by any of these suppliers to provide those services or a failure of their systems may adversely affect Xero's ability to provide services to its customers.
- Exchange rate risk – As Xero expands into international markets, it will derive some or most of its revenues and costs in those international markets, implying significant exposure to foreign exchange movements.
- Market volatility of technology stocks – The market prices of technology stocks are, historically, particularly volatile, including in response to changes in stock markets, or the technology industry, generally.
- Patent applications from unrelated parties – While Xero holds a registered trademark over the name "XERO", it has not applied to register any patents for the intellectual property that it has developed. The intellectual property under development or in use by Xero may be subject to patent applications by unrelated parties in New Zealand or in other jurisdictions, with the result that Xero may, in carrying out its business activities, infringe the patents of such parties. Alternatively, other parties may develop and patent other very similar, potentially substitutable products, processes or technologies. Such events may be outside the control of Xero and may have adverse consequences for its business. Xero has developed an Intellectual Property Strategy to deal with such matters to the extent practicable.

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10 CORPORATE GOVERNANCE

Xero has adopted a formal written Board Charter. Xero believes that good corporate governance improves corporate performance and benefits all Shareholders.

To further enhance listed entities disclosure of corporate governance issues, the ASX Corporate Governance Council (CGC) was established on 1 August 2002. The CGC was established for the purpose of setting an agreed set of corporate governance standards of best practice for Australian listed entities. These standards are contained in the ASX Corporate Governance Principles and Recommendations (ASX Guidelines). The ASX Guidelines articulate eight core principles that CGC believes underlie good corporate governance. The ASX Guidelines provide that a listed entity's Annual Report is required to disclose its main corporate governance practices and also the extent to which the entity complies with the ASX Guidelines and where it does not, explain why.

This section sets out Xero's approach to corporate governance and addresses Xero's compliance with the ASX Guidelines.

ASX Principles and Recommendations	Compliance
Principle 1 – Lay solid foundations for management and oversight	
Companies should establish and disclose the respective roles and responsibilities of board and management	
Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	The Board has adopted a formal Board Charter that details their functions and responsibilities. The Board's role is to effectively represent, and promote the interests of, Shareholders with a view to adding long-term value to the Company's Shares. Having regard to this role the Board directs, and supervises the management of, the business and affairs of the Company including, in particular: • Ensuring that the Company's goals are clearly established, and that strategies are in place for achieving them. • That there is ongoing review of performance against the strategic objectives. • Approving transactions relating to acquisitions and divestments and capital expenditure above delegated authority limits. • That there is ongoing assessment of business risks and ensuring appropriate control and accountability systems are in place to manage them. • Establishing policies for strengthening the performance of the Company including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products and the development of its business capital. • Monitoring the performance of management. • Appointing the Chief Executive, setting the terms of their employment and, where necessary, terminating their employment. • Approving and monitoring the Company's financial and other reporting and ensuring the Company's financial statements represent a true and fair view. To enhance efficiency, the Board has delegated some of its powers to Board Committees and other powers to the Chief Executive. The terms of the delegation by the Board to the Chief Executive are clearly documented in the Board Charter. The Chief Executive has, in some cases, formally delegated certain authorities to his direct reports and has established a formal process for his direct reports to sub-delegate certain authorities.

ASX Principles and Recommendations	Compliance
Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives	The Remuneration Committee evaluates the performance of the Chief Executive. Performance evaluation of the senior management team is facilitated by the GM – Human Relations, in liaison with the Chief Executive. Evaluation of both the CE and senior management team is based on criteria which include the performance of the business, the accomplishment of long-term strategic objectives and other non-quantitative objectives agreed at the beginning of each year.
Recommendation 1.3: Companies should provide the information indicated in the ASX Guidelines to reporting on principle 1	Information to be included in the next Annual Report.

Principle 2 – Structure the board to add value

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties

Recommendation 2.1: A majority of the board should be independent directors	The Board has five non-executive Directors, three of which (Sam Knowles, Craig Elliott and Graham Shaw) are considered to be independent. The Board intends to appoint a further independent director over the next 12 months.
Recommendation 2.2: The chair should be an independent director	Sam Knowles is the non-executive Chairman of the Board. Sam Knowles is also considered an independent Director.
Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual	The roles of Chairman (Sam Knowles) and CE (Rod Drury) are split.
Recommendation 2.4: The board should establish a nomination committee	Xero has a Nominations Committee whose role is to identify and recommend to the Board individuals for nomination as members of the Board and its Committees (taking into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other Directors).
Recommendation 2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	The Chairman meets regularly with Directors to discuss individual performance of the Directors. The Board also has a formal review of its performance on an annual basis. This process incorporates providing feedback via a third party to enhance the robustness of the process. Feedback on relevant Board performance factors is provided by executive members to enhance the working relationship between the Board and management.
Recommendation 2.6: Companies should provide the information indicated in the ASX Guidelines to reporting on principle 2	Information to be included in the next Annual Report .

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ASX Principles and Recommendations	Compliance
Principle 3 – Promote ethical and responsible decision making	
Companies should actively promote ethical and responsible decision making	
Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	The Board maintains high standards of ethical conduct and the CE is responsible for ensuring that high standards of conduct are maintained by all Xero staff, although no formal code of ethics is documented at this time.
Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them	Xero has drafted a diversity policy and this will be approved at the next regular Board Meeting in November 2012.
Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them	Information to be included in the next Annual Report.
Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board	Information to be included in the next Annual Report.
Recommendation 3.5: Companies should provide the information indicated in the ASX Guidelines to reporting on principle 3	Information to be included in the next Annual Report.

ASX Principles and Recommendations	Compliance
Principle 4 – Safeguard integrity in financial reporting	
Companies should have a structure to independently verify and safeguard the integrity of their financial reporting	
Recommendation 4.1: The board should establish an audit committee	Xero is committed to a transparent system for auditing and reporting of the Company's financial performance. The Board has established an Audit and Risk Management Committee, which performs a central role in achieving this goal. The Audit and Risk Management Committee's principal functions are: • To assist the Board in ensuring that appropriate accounting policies and internal controls are established and followed. • To assist the Board in producing accurate financial statements in compliance with all applicable legal requirements and accounting standards. • To ensure the efficient and effective management of business risks.
Recommendation 4.2: The audit committee should be structured so that it: • consists of only non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members	The Audit and Risk Management Committee consists of Graham Shaw, Sam Knowles and Craig Winkler, all of whom are non-executive Directors. Graham Shaw and Sam Knowles are independent. Graham Shaw is the Chairman of the committee and is a Chartered Accountant.
Recommendation 4.3: The audit committee should have a formal charter	Audit and Risk Management Committee has adopted a formal charter.
Recommendation 4.4: Companies should provide the information indicated in the ASX Guidelines to reporting on principle 4	Information to be included in the next Annual Report. The Audit and Risk Management Committee is governed by the Audit and Risk Management Committee Charter which is available at www.xero.com.
Principle 5 – Make timely and balanced disclosure	
Companies should promote timely and balanced disclosure of all material matters concerning the company	
Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	Xero has drafted a formal market disclosure and communications policy and this policy will be approved at the next regular Board Meeting in November 2012. Xero has been listed on the NZX Main Board since 5 June 2007 and has at all times complied with its continuous disclosure obligations under the NZX Listing Rules and the Securities Markets Act 1988. Xero will consider how best to ensure compliance with ASX Listing Rule disclosure requirements.
Recommendation 5.2: Companies should provide the information indicated in the ASX Guidelines to reporting on principle 5	Information to be included in the next Annual Report and/or on the Company's website.

ASX Principles and Recommendations	Compliance
Principle 6 – Respect the rights of shareholders	
Companies should respect the rights of shareholders and facilitate the effective exercise of those rights	
Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	Xero has drafted a formal market disclosure and communications policy and this policy will be approved at the next regular Board Meeting in November 2012. During the time that Xero has been listed on the NZX it has built a reputation of openness and has encouraged a high level of communication with Shareholders and the market generally.
Recommendation 6.2: Companies should provide the information indicated in the ASX Guidelines to reporting on principle 6	Information to be included in the next Annual Report and/or on the Company's website.
Principle 7 – Recognise and manage risk	
Companies should establish a sound system of risk oversight and management and internal control	
Recommendation 7.1: Companies should establish policies for oversight and management of material business risks and disclose a summary of those policies	The Board has an established Audit and Risk Management Committee that reports to the Board regularly. The functions of the Audit and Risk Management Committee are set out in the Audit and Risk Management Charter available at www.xero.com.
Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	Refer to 7.1. Management report to the Board at each regular meeting.
Recommendation 7.3: The board should disclose whether it has received assurance from the Chief Executive officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	As a New Zealand company, Section 295A of the Corporations Act has not been applicable to Xero. However Xero's Chief Executive and Chief Financial Officer do provide equivalent assurances to the Board as part of the annual external Audit process.
Recommendation 7.4: Companies should provide the information indicated in the ASX Guidelines to reporting on principle 7	Information to be included in the next Annual Report. The Audit and Risk Management Committee is governed by the Audit and Risk Management Committee Charter which is available at www.xero.com.

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ASX Principles and Recommendations	Compliance
Principle 8 – Remunerate fairly and responsibly	
Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear	
Recommendation 8.1: The board should establish a remuneration committee	The Board has established a Remuneration Committee whose principal function is to oversee the remuneration strategies and policies for the Company.
Recommendation 8.2: The remuneration committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members	The Remuneration Committee consists of Sam Knowles (Chairman), Graham Shaw and Craig Winkler all of whom are non-executive Directors. Sam Knowles and Graham Shaw are also independent.
Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	Xero distinguishes the structure of non-executive Directors' remuneration from that of executive Directors – this is set out in the Annual Report.
Recommendation 8.4: Companies should provide the information indicated in the ASX Guidelines to reporting on principle 8.	Information to be included in the next Annual Report. The Remuneration Committee is governed by the Remuneration Committee Charter which is available at www.xero.com.

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11 RIGHTS ATTACHING TO SHARES

A summary of the rights attaching to Shares in the Company is set out below. This summary is qualified by the full terms of the Company's constitution (the Constitution), which is available on the New Zealand Government website www.business.govt.nz/companies, and does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of Shareholders.

The rights attaching to Shares in the Company are set out in:

(a) the Constitution; and

(b) in certain circumstances, regulated by the laws of New Zealand, the NZX Listing Rules and, following admission to the Official List, the ASX Listing Rules.

11.1 SHARE ISSUES

The Board may issue Shares with Shareholder approval by ordinary resolution, and without Shareholder approval in certain circumstances, including but not limited to, if made pro-rata to existing Shareholders under certain permitted procedures.

11.2 VOTING

Each Share gives the holder the right to attend and vote at a meeting of Xero including the right to cast one vote per Share on a poll on any resolution, including but not limited to, a resolution to:

- appoint or remove a Director or auditor;
- approve the total remuneration pool available to non-executive Directors;
- adopt, revoke or alter Xero's Constitution;
- approve a major transaction;
- approve the amalgamation of Xero under section 221 of the Companies Act; and
- place Xero in liquidation.

11.3 DIVIDENDS

Each Share gives the holder the right to receive an equal share in any distribution, including dividends, if any, authorised by the Board and declared and paid by Xero in respect of that Share.

11.4 SURPLUS ASSETS

Each Share gives the holder the right to receive an equal share in the distribution of surplus assets in any liquidation of Xero.

11.5 ALTERATION OF RIGHTS

The issue by Xero of any further Shares which rank equally with, or in priority to, any existing Shares, whether as to voting rights or distributions is permitted and not deemed to be an action affecting the rights attached to those existing Shares.

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11.6 TRANSFERS OF SHARES

The holders of Shares may transfer those Shares at any time, subject to any restrictions on those Shares, and subject to certain requirements set out in the Constitution for the registration of the transfer. The Board may decline to register any transfer of Shares where:

(a) the Company has a lien on any of the Shares;

(b) the transfer is not accompanied by the certificate (if any) for the Shares to which it relates or other evidence as the Board of the Company's Share registrar may reasonably require to show the right of the transferor to make the transfer; or

(c) registration, together with the registration of any further transfer then held by the Company and awaiting registration, would result in the proposed transferee holding Shares of less than a minimum holding (which has the definition given to it in the NZX Listing Rules),

provided that the Board resolves to exercise its powers within 30 working days after receipt of the relevant transfer and notice of the resolution is sent to the transferor and to the transferee within five working days of the resolution being passed by the Board.

11.7 CALLS ON SHARES

The Board may, by notice in writing to a Shareholder or Shareholders, make calls in respect of all moneys unpaid on Shares and which are not, by the terms applicable to the Shares, payable at fixed times. The Board may revoke or postpone a call before payment is received. Each relevant Shareholder shall be liable (jointly and severally in the case of joint Shareholders) to pay, in accordance with the relevant notice, every call and shall remain liable to do so notwithstanding the subsequent transfer of the relevant Shares.

11.8 BOARD REMUNERATION

The Board's power to authorise payment or remuneration by Xero to a Director (in his or her capacity as a Director) is subject to the prior approval of Shareholders by ordinary resolution.

11.9 RESTRICTED TRANSACTIONS

Under the NZX Listing Rules, an ordinary resolution of Shareholders is required for the following:

(a) Any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of Xero or assets to be held by Xero in respect of which the gross value is in excess of 50% of the average market capitalisation of Xero.

(b) Any transaction that will change the essential nature of Xero's business.

(c) Certain material transactions (generally those having a net value in excess of 5% of the average market capitalisation of Xero) entered into by any member of the Xero Group with, or for the benefit of, the Directors of any Company in the Xero Group, substantial Shareholders or their Associated Persons.

In addition, the Companies Act requires Shareholder approval by special resolution prior to Xero entering into any transaction (whether by way of an acquisition, disposition or otherwise) involving more than 50% of the market value of Xero's gross assets before the acquisition, disposition or otherwise.

11.10 MINORITY BUY OUT RIGHTS

If, by special resolution, Xero resolves to:

(a) alter or revoke its Constitution in a way which imposes or removes a restriction on the activities of Xero;

(b) approve a major transaction; or

(c) approve a statutory amalgamation,

any Shareholder voting against the resolution is entitled to require Xero to purchase, or to arrange for another person to purchase, the Shares of that Shareholder for a fair and reasonable price nominated by Xero or, if the Shareholder objects to such a price, a price determined by arbitration.

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12 DETAILS OF THE OFFER

12.1 OFFER

Xero offers for subscription, to Andrew Craig Winkler (Non-Executive Director of Xero, based in Australia), one Share at a price of NZD$5.50 under this Prospectus. The one Share offered under this Prospectus will, on issue, rank equally with Shares on issue at the date of this Prospectus. No offer is made under this Prospectus to any other person in any jurisdiction.

12.2 PURPOSE

Xero issued Shares under a private placement in February 2012 and under an associated share purchase plan in March 2012. The Shares were issued without a New Zealand prospectus in accordance with New Zealand securities law and the NZX Listing Rules and upon being admitted on the Official List the Shares would have been subject to the resale restrictions in the Corporations Act for 12 months from the date of issue.

An Australian prospectus is required to essentially remove such resale restrictions. In any event, Xero would have been required to prepare an Information Memorandum to be admitted to the Official List which essentially includes the same information as an Australian prospectus.

12.3 OPENING DATE AND CLOSING DATE OF THE OFFER

The opening date for the Offer is 26 October 2012 and the closing date is 29 October 2012.

12.4 OFFICIAL QUOTATION BY ASX

An Application for admission of the Shares to quotation on the Official List will be made to ASX within seven days after the date of this Prospectus.

If the Share to be issued by this Prospectus is not admitted to official quotation by ASX before the expiration of three months after the date of this Prospectus, or such period as is varied by ASIC, the Company will not issue the Share and will repay all application money within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant official quotation to the Share to be issued pursuant to this Prospectus is not to be taken in any way as an indication of the merits of the Company or the Share offered for subscription.

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13 OTHER INFORMATION

13.1 DISCLOSURE AND REPORTING OBLIGATIONS

Xero has been continuously quoted on the NZX Main Board since being listed on 5 June 2007, and can confirm its compliance with the NZX continuous reporting and disclosure obligations during that period. A copy of the material information notified to NZX Limited may be viewed and obtained on its website at www.nzx.co.nz under the ticker code XRO.

Below is a 'snapshot' of the disclosures made by Xero to NZX since 14 December 2011.

Xero Limited – NZX disclosures for the period from 14 December 2011 to 2 October 2012

Announcement	Date
Xero continues strong growth	2 October 2012
Notice of allotment of securities	1 October 2012
Xero appoints US-based Director	20 September 2012
D&O disclosure (ongoing disclosure) C Winkler	4 September 2012
D&O disclosure (ongoing disclosure) P Norman	30 August 2012
D&O disclosure (ongoing disclosure) A.Grigg	29 August 2012
D&O disclosure (ongoing disclosure) R.Jenkins	28 August 2012
NZXMS Price Enquiry into XRO	27 August 2012
D&O disclosure (ongoing disclosure) A.Grigg	21 August 2012
D&O disclosure (ongoing disclosure) R.Jenkins	20 August 2012
Notice of allotment of securities	20 August 2012
Notice of allotment of securities	1 August 2012
Xero Annual Meeting 2012 – Outcomes	27 July 2012
Xero Annual Meeting 2012	26 July 2012
Notice of issue of Shares under NZX Listing Rule 7.12.1	23 July 2012
Xero conference highlights Australian progress	23 July 2012
Xero acquires Spotlight Workpapers	20 July 2012
Xero integrates with leading US Payroll Provider	17 July 2012
Xero Annual Meeting 2012	15 June 2012
Notice of Director nomination period	30 May 2012
Xero investor presentation	29 May 2012
Xero launches integrated payroll for Australian customers	28 May 2012
Annual Report	24 May 2012
Resignation of P.Norman as Director	24 May 2012
Xero delivers offshore growth – full year results 2012	24 May 2012
Xero Annual Report 2012	24 May 2012
Year end 31 March 2012 financial results – release date	3 May 2012
D&O disclosure (ongoing disclosure) A.Grigg	19 April 2012
D&O disclosure (ongoing disclosure) R.Jenkins	18 April 2012
Xero doubles revenue and invests for growth	3 April 2012
Notice of issue of Shares	2 April 2012
Notice of issue of Shares (amended)	28 March 2012

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Announcement	Date
Xero completes practice management acquisition	23 March 2012
Change of registered office	23 March 2012
D&O disclosure notice (R.Jenkins)	19 March 2012
D&O disclosure notice (G.Shaw)	14 March 2012
Notice of issue of Shares	14 March 2012
SPP takes Xero capital raised to over NZD$35m	8 March 2012
Share Purchase Plan	20 February 2012
D&O disclosure notice (H.Edwards)	16 February 2012
D&O disclosure notice (A.Grigg)	14 February 2012
D&O disclosure notice (R.Drury)	14 February 2012
D&O disclosure notice (R.Jenkins)	14 February 2012
SSH notice – Disclosure of movement (R.Drury)	10 February 2012
SSH notice – Disclosure of movement (H.Edwards)	10 February 2012
Xero adds institutional and strategic investors	10 February 2012
D&O disclosure notice (S.Morgan)	7 February 2012
D&O disclosure notice (S.Knowles)	7 February 2012
D&O disclosure notice (C.Winkler)	7 February 2012
Notice of allotment of securities	7 February 2012
SSH – Jasmine Investment Holdings Limited	2 February 2012
Xero raises NZD$20m to fund global growth and offers SPP	2 February 2012
Appendix 7 – Share Purchase Plan	2 February 2012
Xero acquires leading practice management company	2 February 2012
Notice of issue of options pursuant to NZX Listing Rule 7.12.1	31 January 2012
Xero expects to double 2012 operating revenue	26 January 2012
Xero's Shareholder newsletter	16 December 2011
Xero interim report for the six months 30 September 2011	16 December 2011
Ongoing disclosure notice – R.Jenkins	15 December 2011
Xero announces President for USA	15 December 2011
Notice of issue of Shares pursuant to NZX Listing Rule 7.12.1	14 December 2011

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13.2 LITIGATION

Xero is not currently engaged in any litigation, and the Directors are not aware of any pending or threatened litigation, which has or would be likely to have a material adverse effect on either the Company or its business activities.

13.3 AUDITOR

PricewaterhouseCoopers has given and at the time of lodgement of this Prospectus has not withdrawn its consent to be named in this Prospectus as Xero's auditor and auditor of the financial statements attached to this Prospectus at Annexure A. PricewaterhouseCoopers takes no responsibility for, nor has it authorised the issue of, any part of this Prospectus except for the financial statements attached to this Prospectus at Annexure A.

13.4 AUTHORISATION

The Directors report that after due inquiries by them, in their opinion, since the date of the audited financial statements in the financial information in Section 8, there have not been any circumstances that have arisen or that have materially affected or will materially affect the assets and liabilities, financial position, profits or losses or prospects of the Company, other than as disclosed in this Prospectus.

This Prospectus is authorised by each Director of the Company who has consented to its lodgement with ASIC and its issue, and has not withdrawn that consent.

Rod Drury
Director

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Glossary

Associated Person has the meaning given to it in the NZX Listing Rules.

ASIC means the Australian Securities and Investments Commission.

ASX means the Australian Securities Exchange.

ASX Listing Rules means the official listing rules of the ASX.

Board means the Board of Directors of Xero from time to time.

CE means the Chief Executive Officer of Xero.

Companies Act means the New Zealand Companies Act 1993.

Company or Xero means Xero Limited.

Constitution means the constitution of Xero adopted on 9 May 2007.

Corporations Act means the Corporations Act 2001 (Cth).

Director means an individual who is appointed to the Board of Xero.

Group means Xero and its subsidiaries.

NZX means NZX Limited.

NZX Listing Rules means the listing rules of the Main Board of NZX.

Offer means the invitation made in this Prospectus to subscribe for one Share in the Company.

Official List means the official list of securities that ASX has admitted.

Prospectus means this replacement Prospectus dated 18 October 2012 which replaces a prospectus dated 10 October 2012 relating to Xero.

Share means a share in the capital of Xero and includes any share or other security allocated or issued under a bonus issue or any other capital reorganisation of any nature.

Shareholder means a holder of Shares.

Xero means Xero Limited.

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Annexure A: Financial Statements

XERO LIMITED - INCOME STATEMENTS - FOR THE YEAR ENDED 31 MARCH 2012

	Notes	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Operating revenue	4	19,370	9,341	15,186	8,858
Other income	4	401	325	427	325
Total revenue & other income		19,771	9,666	15,613	9,183
Operating expenses	4	28,385	18,017	24,720	17,655
Operating deficit		(8,614)	(8,351)	(9,107)	(8,472)
Net interest income	4	612	880	607	878
Net operating loss before tax		(8,002)	(7,471)	(8,500)	(7,594)
Gain on investment in associate	11	170	-	178	-
Share of profit of associate	12	38	10	-	-
Net loss before tax		(7,794)	(7,461)	(8,322)	(7,594)
Income tax expense	5	(110)	(26)	-	-
Net loss after tax		(7,904)	(7,487)	(8,322)	(7,594)
Net loss for the year attributable to the shareholders of the Company		(7,904)	(7,487)	(8,322)	(7,594)
Earnings per share					
Basic & diluted loss per share	14	($0.08)	($0.08)	($0.09)	($0.09)

XERO LIMITED - STATEMENTS OF COMPREHENSIVE INCOME - FOR THE YEAR ENDED 31 MARCH 2012

	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Net loss after tax	(7,904)	(7,487)	(8,322)	(7,594)
Other comprehensive income				
Exchange difference on translation of international subsidiaries	(39)	(53)	-	-
Total other comprehensive (expense)/ income for the year, net of tax	(39)	(53)	-	-
Total comprehensive loss for the year attributable to the shareholders of the Company	(7,943)	(7,540)	(8,322)	(7,594)

The accompanying notes form an integral part of these financial statements

XERO LIMITED - STATEMENTS OF CHANGES IN EQUITY - FOR THE YEAR ENDED 31 MARCH 2012

	Notes	Share capital ($000s)	Treasury stock ($000s)	Share-based payment reserve ($000s)	Accumulated losses ($000s)	Foreign currency translation reserve ($000s)	Total equity ($000s)
Year ended 31 March 2012							
Group							
Balance at 1 April 2011		50,168	(1,113)	702	(28,047)	(22)	21,688
Net (loss) after tax		-	-	-	(7,904)	-	(7,904)
Currency translation movements		-	-	-	-	(39)	(39)
Total comprehensive income		-	-	-	(7,904)	(39)	(7,943)
Transactions with owners:							
Issue of ordinary shares (net of issue costs)	13	36,365	-	-	-	-	36,365
Issue of ordinary shares - purchase of Paycycle assets	11	1,294	(1,294)	512	-	-	512
Issue of ordinary shares - purchase of Max Solutions Holdings Limited	11	4,000	(4,000)	407	-	-	407
Issue of ordinary shares under employee restricted share plan	21	1,424	(1,424)	-	-	-	-
Vesting of ordinary shares in employee restricted share plan		-	957	262	-	-	1,219
Balance as at 31 March 2012		93,251	(6,874)	1,883	(35,951)	(61)	52,248
Parent							
Balance at 1 April 2011		50,168	(1,113)	702	(28,105)	-	21,652
Net (loss) after tax		-	-	-	(8,322)	-	(8,322)
Total comprehensive income		-	-	-	(8,322)	-	(8,322)
Transactions with owners:							
Issue of ordinary shares (net of issue costs)	13	36,365	-	-	-	-	36,365
Issue of ordinary shares - purchase of Paycycle assets	11	1,294	(1,294)	512	-	-	512
Issue of ordinary shares - purchase of Max Solutions Holdings Limited	11	4,000	(4,000)	407	-	-	407
Issue of ordinary shares under employee restricted share plan	21	1,424	(1,424)	-	-	-	-
Vesting of ordinary shares in employee restricted share plan		-	957	262	-	-	1,219
Balance as at 31 March 2012		93,251	(6,874)	1,883	(36,427)	-	51,833

XERO LIMITED – STATEMENTS OF CHANGES IN EQUITY – FOR THE YEAR ENDED 31 MARCH 2012

	Notes	Share capital ($000s)	Treasury stock ($000s)	Share-based payment reserve ($000s)	Accumulated losses ($000s)	Foreign currency translation reserve ($000s)	Total equity ($000s)
Year ended 31 March 2011							
Group							
Balance at 1 April 2010		45,270	(738)	371	(20,560)	31	24,374
Net (loss) after tax		–	–	–	(7,487)	–	(7,487)
Currency translation movements		–	–	–	–	(53)	(53)
Total comprehensive income		–	–	–	(7,487)	(53)	(7,540)
Transactions with owners:							
Issue of ordinary shares (net of issue costs)	13	4,040	–	–	–	–	4,040
Issue of ordinary shares under employee restricted share plan	21	858	(858)	–	–	–	–
Vesting of ordinary shares in employee restricted share plan		–	483	331	–	–	814
Balance as at 31 March 2011		50,168	(1,113)	702	(28,047)	(22)	21,688
Parent							
Balance at 1 April 2010		45,270	(729)	371	(20,511)	–	24,401
Net (loss) after tax		–	–	–	(7,594)	–	(7,594)
Total comprehensive income		–	–	–	(7,594)	–	(7,594)
Transactions with owners:							
Issue of ordinary shares (net of issue costs)	13	4,040	–	–	–	–	4,040
Issue of ordinary shares under employee restricted share plan	21	858	(858)	–	–	–	–
Vesting of ordinary shares in employee restricted share plan		–	474	331	–	–	805
Balance as at 31 March 2011		50,168	(1,113)	702	(28,105)	–	21,652

The accompanying notes form an integral part of these financial statements

XERO LIMITED – STATEMENTS OF FINANCIAL POSITION – AS AT 31 MARCH 2012

	Notes	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Assets					
Current assets					
Cash & cash equivalents	6	38,976	16,922	36,722	16,651
Trade & other receivables	7	3,023	1,503	5,409	1,187
Total current assets		41,999	18,425	42,131	17,838
Non-current assets					
Property, plant & equipment	9	4,195	466	3,990	384
Intangible assets	10	10,260	4,773	8,033	4,741
Investment in subsidiaries	11	–	–	2,638	262
Investment in associate	12	–	207	–	200
Deferred tax benefit	5	85	35	-	-
Trade & other receivables	7	1,234	441	1,169	423
Total non-current assets		15,774	5,922	15,830	6,010
Total assets		57,773	24,347	57,961	23,848
Liabilities					
Current liabilities					
Trade & other payables	8	3,046	1,538	4,472	1,273
Employee entitlements		2,408	1,060	1,657	923
Income tax	5	71	61	(1)	–
Total current liabilities		5,525	2,659	6,128	2,196
Total liabilities		5,525	2,659	6,128	2,196
Net assets		52,248	21,688	51,833	21,652
Equity					
Share capital	13	86,377	49,055	86,377	49,055
Share based payment reserve		1,883	702	1,883	702
Accumulated losses		(35,951)	(28,047)	(36,427)	(28,105)
Foreign currency translation reserve		(61)	(22)	–	-
Total equity		52,248	21,688	51,833	21,652

The accompanying notes form an integral part of these financial statements

XERO LIMITED - STATEMENTS OF CASH FLOWS - FOR THE YEAR ENDED 31 MARCH 2012

	Notes	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Operating activities					
Cash was provided from					
Receipts from customers		18,560	8,615	14,774	8,308
GST received		-	136	-	39
Dividends received		26	-	26	-
Other income		283	362	283	325
Interest received		632	898	627	896
		19,501	10,011	15,710	9,568
Cash was applied to					
Payments to suppliers & employees		(23,379)	(15,231)	(22,217)	(14,934)
GST paid		(833)	-	(329)	-
Income tax paid		(150)	-	-	-
		(24,362)	(15,231)	(22,546)	(14,934)
Net cash flows from operating activities	18	(4,861)	(5,220)	(6,836)	(5,366)
Investing activities					
Cash was provided from					
Cash acquired on acquisition of subsidiary	11	259	-	-	-
		259	-	-	-
Cash was applied to					
Purchase of property, plant & equipment		(3,963)	(307)	(3,777)	(237)
Capitalised development costs		(3,519)	(2,752)	(3,499)	(2,747)
Intangible assets		(37)	(18)	(38)	(8)
Other assets		(299)	(18)	(253)	-
Investment in associate		-	(200)	-	(200)
Investment in subsidiary		(1,000)	-	(1,000)	(67)
		(8,818)	(3,295)	(8,567)	(3,259)
Net cash flows from investing activities		(8,559)	(3,295)	(8,567)	(3,259)
Financing activities					
Cash was provided from					
Director's loan		100	-	100	-
Repayment of other loans		100	-	100	-
Share issue		35,638	4,000	35,638	4,000
		35,838	4,000	35,838	4,000
Cash was applied to					
(Cost)/refund of share issue		(364)	40	(364)	40
Net cash flows from financing activities		35,474	4,040	35,474	4,040
Net increase/(decrease) in cash held		22,054	(4,475)	20,071	(4,585)
Foreign currency translation adjustment		-	-	-	-
Cash & cash equivalents at beginning of the year	6	16,922	21,397	16,651	21,236
Cash & cash equivalents at end of the year	6	38,976	16,922	36,722	16,651

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Xero Limited is a limited liability company, domiciled and incorporated in New Zealand and registered under the New Zealand Companies Act 1993. The registered office of the Company is 3 Market Lane, Wellington 6011, New Zealand.

The financial statements presented are for Xero Limited (the "Company") and its subsidiaries comprising Xero (UK) Limited, Xero Pty Limited (Australia), Xero Inc (United States), Xero Trustee Limited, Max Solutions Holdings Limited ("MSHL") and Max Solutions Limited (together "the Group") for the year ended 31 March 2012.

Xero Limited is an issuer for the purposes of the Financial Reporting Act 1993.

The consolidated financial statements of the Group for the year ended 31 March 2012 were authorised for issue in accordance with a resolution of the Directors on 24 May 2012.

The Group's principal activity is the provision of a platform for online accounting and business services to small businesses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

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

The Company and Group are profit-oriented companies for financial reporting purposes.

The consolidated financial statements have been prepared using the historical cost convention.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

(b) Changes in accounting policy & disclosures The accounting policies adopted are consistent with those of the previous year.

(c) Basis of consolidation Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. 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 acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for 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. Costs directly attributable to the acquisition are expensed in the Income Statement. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(d) Associates Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Income Statement, and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Revenue Revenue in relation to subscriptions and training is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recorded net of GST and discounts and after eliminating sales within the Group. The following specific recognition criteria must also be met before revenue is recognised:

Services – Revenue is recognised in the accounting period in which the service is rendered. Consideration received prior to the service being rendered is recognised in the Statement of Financial Position as income in advance and included within trade and other payables. Revenue for which services have been rendered but invoices have not been issued is recognised within the Income Statement and in the Statement of Financial Position as accrued income within trade and other receivables.

Interest – Interest income is recognised on an accruals basis using the effective interest rate method.

Government grants – Government grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When a grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(f) Income tax Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other Comprehensive Income and equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefits will be realised. As permitted by NZIAS 12: Income Taxes, deferred tax assets in relation to tax losses have been recognised to the extent of the Group's deferred tax liabilities.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different entities where there is an intention to settle the balance on a net basis.

(g) GST The Income Statements and the Statements of Cash Flows have been prepared so that all components are stated exclusive of GST, except where GST is not recoverable. All items in the Statement of Financial Position are stated net of GST with the exception of receivables and payables, which include GST invoiced.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(h) Foreign currency translation Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in New Zealand dollars ($), which is the Company's functional currency. 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. Foreign exchange gains and losses are presented in the Income Statement within operating expenses.

The Group translates the results of its foreign operations from their functional currencies to the presentation currency of the Group using the closing exchange rate at balance date for assets and liabilities and the average monthly exchange rates for income and expenses.

The difference arising from translation of the Statement of Financial Position at closing rate and the Income Statement at average rate is recorded within the foreign currency translation reserve.

(i) Property, plant & equipment Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Terms of lease
Motor vehicles	3–4 years
Furniture & equipment	1–7 years
Computer equipment	2–3 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts, and are recognised in the Income Statement.

(j) Intangible assets

(I) Research costs are expensed as incurred.

Costs associated with maintaining internal computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of the software products controlled by the Group are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the capitalised software development costs include the software development employee costs. Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(II) Other intangible assets acquired are initially measured at cost. Internally generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Income Statement in the year in which the expenditure is incurred.

The useful lives of the Group's intangible assets are assessed to be finite. Assets with finite lives are amortised over their useful lives and tested for impairment whenever there are indications that the assets may be impaired.

(III) Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful life of the intangible asset, from the date it is available for use.

The estimated useful lives are:

Trademarks/patents	10 years
Domains	10 years
Capitalised development costs	3-5 years

(k) Impairment of non-financial assets At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Non-derivative financial instruments The Group classifies its financial assets as loans and receivables. The classifications depend on the purposes for which the financial assets were acquired. Management determines the classifications of its financial assets at initial recognition.

(m) Loans & receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise "trade & other receivables" and "cash & cash equivalents" in the Statement of Financial Position. Loans and receivables are carried at amortised cost using the effective interest method. The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.(o). The Group does not have any derivatives.

(n) Cash & cash equivalents include cash in hand, deposits held at call with banks, other short-term and highly liquid investments with original maturities of six months or less.

(o) Trade & other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade 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 the receivables. The carrying amount of an asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the Income Statement.

(p) Trade & other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. The amounts are unsecured, non-interest bearing and are usually paid within 45 days of recognition.

(q) Provisions Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable 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 expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

(r) Employee entitlements The liability for employees' compensation for future leave is accrued in relation to the length of service rendered by employees and relates to the vested and unvested entitlements.

The Group operates both short-term and long-term incentive plans. Employee incentive obligations are measured at the amounts expected to be paid when the liability is settled and are expensed as the related service is provided. The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The value of the employee services received for the grant of non transferable share options and shares is recognised as an expense over the vesting period and the amount is determined by reference to the fair value of the options and shares granted.

(s) Leases Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalised at the inception of the leases at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. The leased assets and corresponding liabilities are therefore recognised and the assets are depreciated in line with the Group's depreciation policy to reflect estimated useful lives.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the Income Statement as interest costs.

(t) Earnings per share The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the Group profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(u) Share capital 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. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Company's equity holders until the shares are cancelled or transferred outside the Group.

(v) Segment reporting An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments are aggregated for disclosure purposes where they have similar products and services, production processes, customers, distribution methods and regulatory environments.

(w) Standards or interpretations issued but not yet effective NZ IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. Financial assets are classified according to their measurement, fair at either value or amortised cost. It is not expected to have a material impact on the Company or Group.

NZ IFRS 44 New Zealand Additional Disclosures (effective for accounting periods beginning on or after 1 July 2011). This standard relocates New Zealand specific disclosures that were previously embedded within the standards to one place and revises disclosures relating to compliance with NZ-IFRS, the statutory basis or reporting framework for financial statements, audit fees, imputation credits, reconciliation of net operating cash flows to profit or loss, prospective financial statements, and elements in the statement of financial performance. The standard is not expected to have a material impact on the Group financial statements. The Group will adopt the standard for the year ending 31 March 2013.

Harmonisation Admendments: Amendments to NZ-IFRS to Harmonise with IFRS and Australian Accounting Standards (effective for accounting periods beginning on or after 1 July 2011). The harmonisation amendments relate to the joint Trans-Tasman project to align New Zealand and Australian accounting standards with IFRS and to remove disclosures to a separate standard (FRS 44) that were previously included within the associated reporting standard. This standard is not expected to have a material impact on the Group financial statements. The Group will adopt the standard for the year ending 31 March 2013.

There are a number of other amendments to accounting standards as part of the ongoing improvement process. None of these changes is expected to impact significantly on the Group.

The Company and Group have not adopted any standards prior to their effective date.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to the Group. Actual results may differ from the judgements, estimates and assumptions.

The significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

(a) Deferred tax asset Deferred tax benefits relating to carry forward tax losses and deductible temporary differences are recognised by the Group and Company to the extent that it is probable that taxable profits will be available against which those losses and temporary differences can be recognised. Deferred tax assets in relation to tax losses have been recognised to the extent of the Group's deferred tax liabilities.

The Group has not recognised deferred tax benefits in relation to all carry forward losses. The Company has not yet reached break-even and is expected to make a further loss in the year ending 31 March 2013. It is not considered prudent to recognise a deferred tax asset in respect of losses and other temporary differences until the point that the Company reaches break-even.

(b) Capitalised development costs The Group capitalises its development costs based on a proportion of employee costs. The percentages applied are in line with industry standards. The Group regularly reviews the carrying value of capitalised development costs to ensure they are supported by the associated future economic benefits. The development costs are amortised over three to five years, being the expected useful life of the software.

(c) Business combinations Business combinations are accounted for using the acquisition method. The amounts transferred in a business combination are measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred and the liabilities incurred by the Group to former owners of the acquiree.

Management has assessed the fair value of the financial assets and liabilities in accordance with the contractual terms, economic conditions, the Group's operating and accounting policies and other relevant conditions as at the acquisition date.

4. REVENUES & EXPENSES

	Notes	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Operating revenue from the rendering of services		19,370	9,341	15,186	8,858
Other income					
Government grants*		401	52	401	52
Research & development tax credit		-	273	-	273
Dividends received	11	-	-	26	-
		401	325	427	325
Total revenue & other income		19,771	9,666	15,613	9,183
Operating expenses					
Employee entitlements		19,272	11,047	12,742	8,760
Employee entitlements capitalised		(5,426)	(2,753)	(3,206)	(2,747)
Advertising & marketing		2,976	2,237	1,231	1,490
IT infrastructure costs		3,266	2,046	2,856	2,046
Intercompany market support payments	15	-	-	4,703	3,644
Consulting & subcontracting		1,222	412	792	368
Travel related		839	537	487	339
Lease/rental		958	472	766	433
Communication & office administration		484	325	338	246
Superannuation costs		330	204	139	94
Directors' fees		220	222	220	222
Fees paid to auditors	16	167	143	142	99
Loss on disposal of property, plant & equipment		119	-	121	-
Loss/(gain) on foreign exchange transactions		(8)	(40)	(8)	15
Other operating expenses		2,072	2,012	1,559	1,523
Total operating expenses exc. depreciation & amortisation		26,491	16,864	22,882	16,532
Depreciation & amortisation expense					
Property, plant & equipment	9	320	207	259	186
Amortisation of other intangible assets	10	11	10	10	7
Amortisation of development costs	10	1,563	936	1,569	930
Total depreciation & amortisation		1,894	1,153	1,838	1,123
Total operating expenses		28,385	18,017	24,720	17,655
Interest income					
Interest income – bank		587	868	582	866
Interest income – loan to related party	15	20	8	20	8
Interest income – other		5	4	5	4
Net interest income		612	880	607	878
Net operating loss before tax		(8,002)	(7,471)	(8,500)	(7,594)

*Government grants have been received from the Ministry of Science and Innovation (2011: New Zealand Trade and Enterprise). The grants were claimed retrospectively on qualifying expenditure, and all conditions have been fulfilled at balance date.

5. CURRENT & DEFERRED INCOME TAX

Current income tax

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Accounting loss before income tax	(7,794)	(7,461)	(8,322)	(7,594)
At the statutory income tax rate of 28% (2011: 30%)	(2,182)	(2,238)	(2,330)	(2,278)
Non-deductible expenditure	27	20	(37)	11
Effect of change in income tax rate	39	-	-	-
Tax rate variance of subsidiary	63	(3)	-	-
Tax expense on share of associate company profit	11	3	-	-
Total tax losses not recognised	2,152	2,244	2,367	2,267
Income tax expense reported in income statement	110	26	-	-
Comprising:				
Income tax	160	61	-	-
Deferred tax	(50)	(35)	-	-
Income tax expense	110	26	-	-

Income tax payable/receivable

Opening balance	61	-	-	-
Income tax liability for the year	160	61	-	-
Income tax paid	(150)	-	(1)	-
Current tax payable/(receivable)	71	61	(1)	-

Imputation credit account

Balance as at 1 April	-	-	-	-
New Zealand income tax payments during the year	1	-	1	-
Balance at 31 March	1	-	1	-

5. CURRENT & DEFERRED INCOME TAX (CONTINUED)

Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Group provisions & employee entitlements ($000s)	Group accelerated depreciation ($000s)	Group tax losses ($000s)	Group net ($000s)
Deferred tax/(liability) balances:				
At 1 April 2011	296	(571)	310	35
Effect of change in income tax rate on opening balance	(20)	38	21	39
Adjustment in respect of prior periods	(97)	-	(2)	(99)
Charged to income statement	345	(229)	(6)	110
At 31 March 2012	524	(762)	323	85
At 1 April 2010	-	-	-	-
Charged to income statement	296	(571)	310	35
At 31 March 2011	296	(571)	310	35

	Parent provisions & employee entitlements ($000s)	Parent accelerated depreciation ($000s)	Parent tax losses ($000s)	Parent net ($000s)
Deferred tax/(liability) balances:				
At 1 April 2011	261	(571)	310	-
Effect of change in income tax rate on opening balance	(17)	38	(21)	-
Adjustment in respect of prior periods	(155)	-	155	-
Charged to income statement	238	(229)	(9)	-
At 31 March 2012	327	(762)	435	-
At 1 April 2010	-	-	-	-
Charged to income statement	261	(571)	310	-
At 31 March 2011	261	(571)	310	-

With the exception of $77,000 it is not anticipated that deferred tax balances will be recovered within 12 months. Deferred tax assets and liabilities have been offset where the balances are due to/receivable from the same counterparties. Deferred income tax assets are recognised for carried forward tax losses to the extent of the Company's deferred tax liabilities. The Company has unrecognised New Zealand tax losses available to carry forward of $35,051,000 (2011: $26,698,000) subject to shareholder continuity being maintained as required by New Zealand tax legislation.

6. CASH & CASH EQUIVALENTS

	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Cash at bank	2,607	380	416	151
Bank term deposits	36,369	16,542	36,306	16,500
	38,976	16,922	36,722	16,651

7. TRADE & OTHER RECEIVABLES

	Notes	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Current assets					
Trade receivables		1,347	814	832	587
Trade receivables from related parties	15	-	-	3,213	122
Accrued income		687	350	357	221
Prepayments		311	172	147	90
Interest receivable		138	167	138	167
Government grant receivable		170	-	170	-
GST receivable		-	-	182	-
Rental bonds		250	-	250	-
Loans to Directors	15	120	-	120	-
		3,023	1,503	5,409	1,187
Non-current assets					
Loans to Directors	15	-	232	-	232
Loans to key management	15	1,094	-	1,094	-
NZX & rental bonds		140	75	75	75
Other loans		-	116	-	116
Other assets		-	18	-	-
		1,234	441	1,169	423

Trade receivables that are less than three months past due are not considered impaired. As of 31 March 2012, trade receivables of the Parent and Group of $64,000 were past due (2011: $24,000). These relate to a number of independent customers for whom there is no recent history of default. The Group has created a provision of $7,000 (2011: $16,000) for impaired receivables.

8. TRADE & OTHER PAYABLES

	Notes	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Trade payables		969	915	738	768
Trade payables due to related parties	15	-	-	1,913	207
Accrued expenses		651	478	528	265
Onerous lease provision	23	275	-	275	-
Amounts payable on acquisition of subsidiary	11	1,000	-	1,000	-
Income in advance		90	-	18	-
GST payable		61	145	-	33
		3,046	1,538	4,472	1,273

9. PROPERTY, PLANT & EQUIPMENT

	Leasehold improvements ($000s)	Motor vehicles ($000s)	Computer equipment ($000s)	Furniture & equipment ($000s)	Total ($000s)
Group – Year ended 31 March 2012					
Cost					
Balance as at 1 April 2011	308	80	565	252	1,205
Additions	2,792	36	617	752	4,197
Disposals	(316)	–	(177)	(132)	(625)
Foreign exchange adjustment	–	–	(2)	(2)	(4)
Balance as at 31 March 2012	2,784	116	1,003	870	4,773
Depreciation					
Balance as at 1 April 2011	182	62	391	104	739
Depreciation expense	75	16	177	52	320
Disposals	(242)	–	(162)	(76)	(480)
Foreign exchange adjustment	(1)	–	(2)	2	(1)
Balance as at 31 March 2012	14	78	404	82	578
Net carrying amount	2,770	38	599	788	4,195
Parent – Year ended 31 March 2012					
Cost					
Balance as at 1 April 2011	306	80	487	213	1,086
Additions	2,752	36	519	684	3,991
Disposals	(304)	–	(173)	(132)	(609)
Balance as at 31 March 2012	2,754	116	833	765	4,468
Depreciation					
Balance as at 1 April 2011	182	62	357	101	702
Depreciation expense	70	16	133	40	259
Disposals	(244)	–	(163)	(76)	(483)
Balance as at 31 March 2012	8	78	327	65	478
Net carrying amount	2,746	38	506	700	3,990

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	Leasehold improvements ($000s)	Motor vehicles ($000s)	Computer equipment ($000s)	Furniture & equipment ($000s)	Total ($000s)
Group – Year ended 31 March 2011					
Cost					
Balance as at 1 April 2010	255	60	422	162	899
Additions	53	20	144	90	307
Disposals	–	–	–	–	–
Foreign exchange adjustment	–	–	(1)	–	(1)
Balance as at 31 March 2011	308	80	565	252	1,205
Depreciation					
Balance as at 1 April 2010	125	48	282	77	532
Depreciation expense	57	14	109	27	207
Disposals	–	–	–	–	–
Foreign exchange adjustment	–	–	–	–	–
Balance as at 31 March 2011	182	62	391	104	739
Net carrying amount	126	18	174	148	466
Parent – Year ended 31 March 2011					
Cost					
Balance as at 1 April 2010	255	60	379	155	849
Additions	51	20	108	58	237
Disposals	–	–	–	–	–
Balance as at 31 March 2011	306	80	487	213	1,086
Depreciation					
Balance as at 1 April 2010	125	48	266	77	516
Depreciation expense	57	14	91	24	186
Disposals	–	–	–	–	–
Balance as at 31 March 2011	182	62	357	101	702
Net carrying amount	124	18	130	112	384

10. INTANGIBLE ASSETS

	Patents & trademarks ($000s)	Software development* ($000s)	Domains ($000s)	Total ($000s)
Group – Year ended 31 March 2012				
Cost				
Balance as at 1 April 2011	29	7,688	81	7,798
Additions	3	7,054	34	7,091
Disposals	–	–	(33)	(33)
Foreign exchange adjustment	–	–	(1)	(1)
Balance as at 31 March 2012	32	14,742	81	14,855
Amortisation & impairment				
Balance as at 1 April 2011	7	2,997	21	3,025
Amortisation during year	3	1,563	8	1,574
Disposals	–	–	(4)	(4)
Balance as at 31 March 2012	10	4,560	25	4,595
Net carrying amount	22	10,182	56	10,260
Parent – Year ended 31 March 2012				
Cost				
Balance as at 1 April 2011	26	7,682	49	7,757
Additions	6	4,834	31	4,871
Balance as at 31 March 2012	32	12,516	80	12,628
Amortisation & impairment				
Balance as at 1 April 2011	7	2,991	18	3,016
Amortisation during year	3	1,569	7	1,579
Balance as at 31 March 2012	10	4,560	25	4,595
Net carrying amount	22	7,956	55	8,033

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	Patents & trademarks ($000s)	Software development* ($000s)	Domains ($000s)	Total ($000s)
Group – Year ended 31 March 2011				
Cost				
Balance as at 1 April 2010	22	4,935	70	5,027
Additions	7	2,753	11	2,771
Balance as at 31 March 2011	29	7,688	81	7,798
Amortisation & impairment				
Balance as at 1 April 2010	5	2,061	13	2,079
Amortisation during year	2	936	8	946
Balance as at 31 March 2011	7	2,997	21	3,025
Net carrying amount	22	4,691	60	4,773
Parent – Year ended 31 March 2011				
Cost				
Balance as at 1 April 2010	22	4,935	45	5,002
Additions	4	2,747	4	2,755
Balance as at 31 March 2011	26	7,682	49	7,757
Amortisation & impairment				
Balance as at 1 April 2010	5	2,061	13	2,079
Amortisation during year	2	930	5	937
Balance as at 31 March 2011	7	2,991	18	3,016
Net carrying amount	19	4,691	31	4,741

*Capitalised development costs have been internally generated.

11. BUSINESS COMBINATIONS

Paycycle Holdings Pty Limited

On 1 August 2011 the Group acquired the assets and business of Paycycle Holdings Pty Limited. The transaction will cost a total of NZ $1.9 million comprising a cash component and an equity component.

The following table summarises the cash component paid and the amount of assets acquired. No liabilities were assumed.

	($000s)
Cash consideration at 1 August 2011	377
Contingent consideration paid December 2011	251
Total cash consideration	628
Recognised amounts of identifiable assets acquired	
Software development costs	628
Goodwill	-
Total identifiable assets	628

The equity component of the consideration comprised the issue of 606,130 shares in Xero Limited to the owners of Paycycle Holdings Pty Limited at the volume weighted average price ("VWAP") for the twenty days prior to 1 August 2011 which was $2.13. The total equity component was $1.3 million.

The vesting of the shares is to be recognised separately from the acquisition and is contingent on continued employment by the Group of the owners for a three year period and will be recognised as an employment cost over that period. As these employees are involved in the development of software an element of these amounts will be capitalised under the Group's software development capitalisation policy.

The revenue from the Paycycle business included in the Group's Income Statement for the period ended 31 March 2012 was $235,000. The Paycycle business incurred a loss of $110,000 for the period. Had the acquisition occured at the start of the financial year the result of the Group would not have materially changed.

Max Solutions Holdings Limited

On 27 January 2012 the Group acquired the remaining shares (84.1%) in Max Solutions Holdings Limited ("MSHL"). The transaction will cost a total of $6 million comprising a cash component and an equity component. Control of the assets and business of MSHL was obtained on 1 November 2011, consolidation commenced from this date.

$1 million of the cash component was paid on completion. Deferred consideration arrangements require the Group to pay the owners of MSHL a further $1 million in cash; $500,000 being payable six months after completion date and $500,000 payable 12 months after completion date.

The equity component of the consideration comprised the issue of 1,261,830 shares in Xero Limited to the owners of MSHL at the VWAP price for the twenty days prior to 23 March 2012 which was $3.17. The total equity component was $4 million.

The vesting of the shares is to be recognised separately from the acquisition and is contingent on continued employment by the Group of the owners for a three year period and will be recognised as an employment cost over that period. As these employees are involved in the development of software an element of these amounts will be capitalised under the Group's software development capitalisation policy.

The fair value of MSHL at acquisition date was $2,378,000.

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The following table summarises the consideration paid and the amounts of assets and liabilities assumed:

	($000s)
Cash consideration at 27 January 2012 (Completion date)	1,000
Deferred consideration	1,000
Total consideration for remaining shareholding	**2,000**
Recognised amounts of identifiable assets & liabilities acquired	
Cash & cash equivalents	259
Property, plant & equipment	14
Intangible assets - software development	2,204
Amounts payable to outside parties	(47)
Income tax payable	(52)
Enterprise value	**2,378**
Satisfied by:	
Cash consideration	1,000
Deferred cash consideration	1,000
15.9% investment at acquisition date	200
Share of pre-acquisition profits net of tax	34
Dividends received	(26)
Gain on revaluation of investment to fair value	170
	2,378

Prior to the acquisition the Group held a 15.9% stake in MSHL which had been acquired for $200,000 cash. The Group recognised in its Statement of Comprehensive Income a gain of $170,000 as a result of re-measuring at fair value its 15.9% share, as required by NZ IFRS 3.

The costs directly attributable to the acquisition of MSHL were $51,000. These have been expensed within the Group's Income Statements as an operating expense.

The revenue from MSHL included in the Group's Income Statement for the period 1 November 2011 to 31 March 2012 was $601,000. MSHL reported a profit of $251,000 for the same period ending 31 March 2012.

Had the business combination taken place from 1 April 2011, MSHL would have reported revenues of $1,299,000 and a profit of $492,000 for the year ended 31 March 2012.

12. INVESTMENT IN ASSOCIATE

	Group 2012 ($000s)	Group 2011 ($000s)
At 1 April	207	-
Acquisition of associate	-	200
Share of profit	38	10
Dividend received	(26)	-
Income tax expense	(11)	(3)
Consideration received	(378)	-
Gain on disposal	170	-
At 31 March	-	207

Xero Limited purchased 189 shares of MSHL, an unlisted company, on 24 December 2010.
Xero Limited purchased the remaining shares to acquire MSHL as a subsidiary on 27 January 2012.

13. SHARE CAPITAL

Movement in ordinary shares on issue

	Notes	Group 2012 (000s)	Group 2011 (000s)	Parent 2012 (000s)	Parent 2011 (000s)
Balance as at 1 April		91,012	87,631	91,012	87,640
Issue of ordinary shares		13,352	2,681	13,352	2,681
Issue of ordinary shares – purchase of Paycycle assets	11	606	-	606	-
Issue of ordinary shares – purchase of Max Solutions Holdings Limited	11	1,262	-	1,262	-
Issue of ordinary shares under employee restricted share plan	21	550	700	550	691
Ordinary shares on issue at 31 March		106,782	91,012	106,782	91,012
Treasury stock		(2,683)	(763)	(2,683)	(763)
Ordinary shares on issue at 31 March		104,099	90,249	104,099	90,249

All shares have been issued, are fully paid and have no par value.

During the year the Company undertook a share placement programme whereby a total of 7.27 million shares were issued at $2.75. In March 2012 a Share Purchase Plan was completed with a total of 5.69 million shares issued at $2.75 to existing shareholders. In addition, shares were issued to key management personnel (note 15).

The Company issued 550,000 shares in June 2011 as part of the Company's Employee Restricted Share Plan at an average price of $2.29.

Included within the value of share capital are transaction costs associated with the issue of new ordinary shares. These transaction costs were directly associated with the equity transactions and accordingly have been accounted for as a deduction from equity.

Treasury stock includes shares issued in relation to the purchase of the Paycycle assets and MSHL and the Employee Restricted Share Plan and that have yet to vest.

14. EARNINGS PER SHARE

Loss attributable to ordinary shareholders:

	Notes	Group 2012 (000s)	Group 2011 (000s)	Parent 2012 (000s)	Parent 2011 (000s)
Net loss after tax		($7,904)	($7,487)	($8,322)	($7,594)
Issued ordinary shares	13	106,782	91,012	106,782	91,012
Weighted average of issued ordinary shares		93,472	89,322	93,472	89,322
Basic & diluted loss per share		($0.08)	($0.08)	($0.09)	($0.09)

15. RELATED PARTIES

The Company entered into the following transactions and had balances (payable)/receivable with the following related parties:

	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Xero (UK) Limited (UK)				
Market support payments to subsidiary	-	-	739	1,421
Distribution charge to subsidiary	-	-	1,211	985
Management fee charged to subsidiary	-	-	224	-
Due from/(to) subsidiary	-	-	693	(140)
Xero Pty Limited (Australia)				
Market support payments to subsidiary	-	-	2,652	2,223
Intercompany transaction fees paid to subsidiary	-	-	39	-
Distribution charge to subsidiary	-	-	1,889	1,319
Management fee charged to subsidiary	-	-	488	-
Due from/(to) subsidiary	-	-	474	122
Xero Inc (United States)				
Market support payments to subsidiary	-	-	1,312	-
Intercompany transaction fees paid to subsidiary	-	-	1	-
Distribution charge to subsidiary	-	-	79	-
Management fee charged to subsidiary	-	-	184	-
Due from/(to) subsidiary	-	-	333	(67)
Xero Trustee Limited				
Due from subsidiary in relation to shares issued during the year	-	-	-	-

Xero Trustee Limited acts as Trustee for the Xero Limited Employee Restricted Share Plan. (Note 21).

Max Solutions Holdings Limited				
Due from/(to) subsidiary	-	-	(200)	-

All transactions and outstanding balances with these related parties are priced to provide a fair return on assets employed and revenues generated and are to be settled in cash and under normal commercial terms. None of the balances are secured.

Operating revenue/(expense) includes management fees, distributor costs, transaction fees and market support payments between the Company and its subsidiaries.

15. RELATED PARTIES (CONTINUED)

The Group and Company entered into the following transactions and had balances payable/receivable with the following related parties:

Loans to Directors and key management

	Loan principal 2012 ($000s)	Loan interest 2012 ($000s)	Balance outstanding 2012 ($000s)	Loan interest 2011 ($000s)	Balance outstanding 2011 ($000s)
Directors					
Phil Norman	-	4	120	4	116
Graham Shaw	-	2	-	4	116
Key management	1,080	14	1,094	-	-
	1,080	20	1,214	8	232

Unsecured loans were issued to Directors during the year ended 31 March 2008 to purchase shares in the Company at $1.00 per share. Simple interest is accrued at a rate of 4% per annum, with the loans and interest being repayable five years after the date of issue.

Secured loans were issued to key management during the year ended 31 March 2012 to purchase shares in the Company at $2.75 per share. Simple interest is accrued at a rate of 4% per annum, with the loans and interest being repayable three years after the date of issue.

Other related parties – key management & directors

	Transaction value for year 2012 ($000s)	Transaction value for year 2011 ($000s)	Balance outstanding 2012 ($000s)	Balance outstanding 2011 ($000s)
Sam Morgan, Graham Shaw, Craig Winkler - Anaplan Inc.	55	-	-	-
	55	-	-	-

All transactions and outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash and under normal commercial terms. Transactions relate to the provision of Financial Reporting software provided by Anaplan Inc. None of the balances are secured.

Some members of key management and Directors subscribe to the Xero services provided by the Group. None of these related party transactions were significant to either the Company or the Directors.

Some members of key management participate in the Employee Restricted Share Plan (Note 21).

No amounts with any related parties have been written off or foregone during the year (2011: Nil).

Key management personnel remuneration Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and include the Chief Executive, his direct reports and Directors. The following table summarises remuneration paid to key management personnel.

	2012 ($000s)	2011 ($000s)
Short-term employee benefits	2,480	1,878
Share options (under Employee Share Options Scheme)	14	-
Share based payments (under Employee Restricted Share Plan)	487	243

16. AUDITORS' REMUNERATION

	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Amounts received or due & receivable by PricewaterhouseCoopers for:				
Audit of financial statements	72	86	47	42
Accounting advice & agreed upon procedures review*	57	19	57	19
Taxation services**	38	38	38	38
Total fees paid to auditors	167	143	142	99

* *Services relate to agreed upon procedures for the Group's half year result, audit of the Company's share register and technical accounting advice.*
** *Services relate to the provision of assurance services for the annual tax return, tax advice on the Group's incentive plans and taxation of offshore employees.*

17. FINANCIAL INSTRUMENTS & FINANCIAL RISK MANAGEMENT OBJECTIVES

Financial instruments Financial instruments recognised in the Statement of Financial Position include cash balances, receivables and payables. It is, and has been, through the period of these financial statements, the Group's policy that no trading in financial instruments shall be undertaken.

Classification & fair values The carrying value of the Parent's and Group's financial instruments approximates their fair value. Set out below is a comparison by category of the carrying amounts of all the Parent's and Group's financial instruments and their fair values.

	Loans & receivables ($000s)	Financial liabilities at amortised cost ($000s)	Total carrying value ($000s)	Fair value ($000s)
Group – Year ended 31 March 2012				
Assets				
Trade & other receivables	2,732	–	2,732	2,732
Cash & cash equivalents	38,976	–	38,976	38,976
Loans to Directors	120	–	120	120
Loans to key management	1,094	–	1,094	1,094
Total financial assets	42,922	–	42,922	42,922
Liabilities				
Trade & other payables	–	2,710	2,710	2,710
Total financial liabilities	–	2,710	2,710	2,710
Group – Year ended 31 March 2011				
Assets				
Trade & other receivables	1,406	–	1,406	1,406
Cash & cash equivalents	16,922	–	16,922	16,922
Loans to Directors	232	–	232	232
Other loans	134	–	134	134
Total financial assets	18,694	–	18,694	18,694
Liabilities				
Trade & other payables	–	1,393	1,393	1,393
Total financial liabilities	–	1,393	1,393	1,393

17. FINANCIAL INSTRUMENTS & FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

	Loans & receivables ($000s)	Financial liabilities at amortised cost ($000s)	Total carrying value ($000s)	Fair value ($000s)
Parent – Year ended 31 March 2012				
Assets				
Trade & other receivables	5,035	-	5,035	5,035
Cash & cash equivalents	36,722	-	36,722	36,722
Loans to Directors	120	-	120	120
Loans to key management	1,094	-	1,094	1,094
Total financial assets	**42,971**	**-**	**42,971**	**42,971**
Liabilities				
Trade & other payables	-	4,197	4,197	4,197
Total financial liabilities	**-**	**4,197**	**4,197**	**4,197**
Parent – Year ended 31 March 2011				
Assets				
Trade & other receivables	1,172	-	1,172	1,172
Cash & cash equivalents	16,651	-	16,651	16,651
Loans to Directors	232	-	232	232
Other loans	116	-	116	116
Total financial assets	**18,171**	**-**	**18,171**	**18,171**
Liabilities				
Trade & other payables	-	1,240	1,240	1,240
Total financial liabilities	**-**	**1,240**	**1,240**	**1,240**

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk.

Interest rate risk The Group's interest rate risk arises from its cash balances. These are placed on deposit at variable rates that expose the Group to cash flow interest rate risk. The Group does not enter into forward rate agreements or any interest rate hedges.

The Company's management regularly reviews its banking arrangements to ensure that it achieves the best returns on its funds while maintaining access to necessary cash levels to service the Company's day-to-day activities.

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The interest rate re-pricing profiles of the Group's financial assets and liabilities subject to interest rate risk are:

	Interest Rate	Balance sheet ($000s)	12 Months ($000s)	24 Months ($000s)	>24 Months ($000s)
Group – Year ended 31 March 2012					
Financial assets					
Cash at bank	4.9%	38,976	38,976	–	–
Loans to Directors & key management	4.0%	1,214	120	–	1,094
Total		40,190	39,096	–	1,094
Parent – Year ended 31 March 2012					
Financial assets					
Cash at bank	4.9%	36,722	36,722	–	–
Loans to Directors & key management	4.0%	1,214	120	–	1,094
Total		37,936	36,842	–	1,094
Group – Year ended 31 March 2011					
Financial assets					
Cash at bank	4.9%	16,922	16,922	–	–
Loans to Directors	4.0%	232	–	232	–
Other loans	4.0%	116	–	116	–
Other assets	5.5%	18	–	18	–
Total		17,288	16,922	366	–
Parent – Year ended 31 March 2011					
Financial assets					
Cash at bank	4.9%	16,651	16,651	–	–
Loans to Directors	4.0%	232	–	232	–
Other loans	4.0%	116	–	116	–
Total		16,999	16,651	348	–

Of the financial assets and liabilities above, only the cash at bank is subject to floating interest rate risk. Loans to Directors and other loans are subject to fixed rate interest. All other financial assets and liabilities of the Group are not subject to interest rate risk.

As at 31 March 2012 if interest rates had been 1.0% higher/lower with all other variables held constant, interest income, net loss and retained earnings for the Company and the Group would have decreased/increased by $364,000 (2011: $186,000).

Liquidity risk Liquidity risk is the risk that the Company or Group cannot pay contractual liabilities as they fall due. During the year, the Company raised $36.6 million by way of private placement and the Share Purchase Plan. Following the receipt of the proceeds of the capital raising, the Company has sufficient cash to meet its requirements in the foreseeable future. The Group has no debt and therefore management remains focused on generating sufficient revenue from sales to cover the ongoing costs of operation.

17. FINANCIAL INSTRUMENTS & FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

The following table sets out the undiscounted contractual cash flows for all financial liabilities of the Company and Group:

	Balance sheet ($000s)	Contractual cash flows ($000s)	6 months or less ($000s)	6-12 months ($000s)	1-2 years ($000s)	More than 2 years ($000s)
Group - Year ended 31 March 2012						
Trade & other payables	2,710	2,710	2,710	500	-	-
Total non-derivative liabilities	2,710	2,710	2,710	500	-	-
Parent - Year ended 31 March 2012						
Trade payables	4,197	4,197	3,197	500	-	-
Total non-derivative liabilities	4,197	4,197	3,197	500	-	-
Group - Year ended 31 March 2011						
Trade payables	1,393	1,393	1,393	-	-	-
Total non-derivative liabilities	1,393	1,393	1,393	-	-	-
Parent - Year ended 31 March 2011						
Trade payables	1,240	1,240	1,240	-	-	-
Total non-derivative liabilities	1,240	1,240	1,240	-	-	-

Credit risk Where the Group has a receivable from another party, there is a credit risk in the event of non-performance by that other party. Financial instruments that potentially subject the Group to credit risk principally consist of bank balances and receivables.

The Group manages its exposure to credit risk by monitoring the credit quality of the financial institutions that hold its cash balances. The credit risk associated with trade receivables is small because of the inherently low individual transaction value and the spread over many customers.

Maximum exposure to credit risk at balance date

	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Cash & cash equivalents	38,976	16,922	36,722	16,651
Receivables	2,712	1,406	5,080	1,172
Non-current receivables	1,234	366	1,169	348
Total	42,922	18,694	42,971	18,171

Foreign currency risk The Group faces the risk of movements in foreign currency exchange rates against the New Zealand dollar. The Group operates in three other currencies, being UK pounds, Australian dollars and US dollars. As a result the Group's Income Statement and Statements of Financial Position can be affected by movements in exchange rates.

Both the UK and Australian operations are now self funding. The US operation is funded directly from New Zealand and will continue to require funding support for at least the next year. During this time the foreign currency risk will increasingly be mitigated by the generation of revenues in the US.

The potential effect on the Company's and Group's results for the year ended 31 March 2012 if the New Zealand dollar had weakened by 10% against the other operating currencies, with all other variables remaining constant, would be an increase in the net loss and retained earnings for the Group of $188,000 (2011: $122,000).

18. RECONCILIATION OF OPERATING CASH FLOWS

	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Reconciliation from the net loss after tax to the net cash from operating activities				
Net loss after tax	(7,904)	(7,487)	(8,322)	(7,594)
Adjustments				
Depreciation	320	207	259	186
Amortisation	1,574	946	1,579	937
Deferred tax	(50)	(35)	-	-
Associate profit	(38)	(7)	-	-
Gain on investment in associate	(170)	-	(178)	-
Loss/(gain) on foreign exchange transactions	(8)	(53)	(8)	-
Loss on disposal on property, plant & equipment	119	-	121	-
Employee entitlements	1,380	814	950	805
Interest on loans	(18)	(12)	(18)	(12)
Changes in working capital items				
(Increase)/decrease in trade receivables & prepayments	(1,162)	(545)	(3,697)	(407)
(Decrease)/increase in trade payables & accruals	(202)	688	2,008	415
(Increase)/decrease in GST	(84)	126	(215)	33
(Increase)/decrease in current tax payable	10	61	(1)	-
(Decrease)/increase in employee entitlements	1,282	175	668	312
(Decrease)/increase in income in advance	90	(98)	18	(41)
Net cash from operating activities	(4,861)	(5,220)	(6,836)	(5,366)

19. SEGMENT INFORMATION

The Group has three reporting segments based on the geographical locations of the operations and revenue streams.

These segments have been determined based on the reports reviewed by the Chief Operating Decision Maker to make strategic decisions.

The Group currently operates in one business segment, providing an online accounting solution for small businesses.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Board is measured in a manner consistent with that in the Income Statement. Entities are domiciled in New Zealand, the United Kingdom and Australia. Revenue from external customers is generated in their domiciliation countries.

The total of non-current assets, other than financial instruments, located in New Zealand is $11,097,000 (2011: $5,748,000) and the total of non-current assets located in other countries is $191,000 (2011: 139,000).

	New Zealand ($000s)	United Kingdom ($000s)	Australia ($000s)	Rest of World ($000s)	Inter-Segment eliminations ($000s)	Total ($000s)
Group – For the year ended 31 March 2012						
Revenue from external customers	10,325	2,723	5,024	1,298	-	19,370
Inter-segment revenue	4,075	739	2,691	1,313	(8,818)	-
Total segment revenue	14,400	3,462	7,715	2,611	(8,818)	19,370
Depreciation & amortisation	(1,842)	(6)	(44)	(2)	-	(1,894)
Interest income	609	-	3	-	-	612
Segment net (loss)/profit before tax	(9,398)	154	347	1,103	-	(7,794)
Segment net (loss)/profit after tax	(9,456)	138	312	1,102	-	(7,904)
Non-current asset additions	11,098	3	165	22	-	11,288
Segment assets	60,615	1,286	2,037	477	(6,642)	57,773
Segment liabilities	5,965	1,113	1,860	411	(3,824)	5,525
Group – For the year ended 31 March 2011						
Revenue from external customers	5,937	1,294	1,494	616	-	9,341
Inter-segment revenue	2,305	1,421	2,223	-	(5,949)	-
Total segment revenue	8,242	2,715	3,717	616	(5,949)	9,341
Depreciation & amortisation	(1,123)	(9)	(21)	-	-	(1,153)
Interest income	878	-	2	-	-	880
Segment net (loss)/profit before	(8,210)	30	38	616	65	(7,461)
Segment net (loss)/profit after tax	(8,213)	26	19	616	65	(7,487)
Non-current asset additions	3,271	16	86	-	(58)	3,315
Segment assets	23,848	860	916	-	(1,277)	24,347
Segment liabilities	2,196	706	875	-	(1,118)	2,659

20. COMMITMENTS & CONTINGENCIES

There were no capital commitments or contingent liabilities as at 31 March 2012 (2011: Nil).

21. SHARE BASED PAYMENTS

Employee Restricted Share Plan

In May 2008 the Xero Limited Employee Restricted Share Plan ('RSP') was introduced for selected executives and employees of the Group. Under the RSP, ordinary shares in Xero Limited are issued to a trustee, Xero Trustee Limited, a wholly-owned subsidiary, and allocated to participants, on grant date, using funds lent to them by the Company.

Under the RSP, the shares are beneficially owned by the participants. The length of retention period before the shares vest is between one and three years. The price for each share issued during the year under the RSP is the higher of the volume-weighted average end-of-day market price reported on the New Zealand Exchange for the 20 business days immediately preceding the date on which the share is allocated or the invitation price.

If the individual is still employed by the Group at the end of this specific period, the employee is given a cash bonus that must be used to repay the loan and the shares are then transferred to the individual. The number of shares awarded is determined by the Remuneration Committee of the Board of Directors. The weighted average grant date fair value of restricted shares issued during the year was $2.29 (2011: $1.44). Shares with a grant date fair value of $580,000 vested during the year (2011: $483,000). The Group has no legal or constructive obligation to repurchase the shares or settle the RSP for cash.

	Number of shares 2012 (000s)	Number of shares 2011 (000s)
Unvested shares as at 1 April	679	420
Awarded pursuant to Employee Restricted Share Plan	621	721
Forfeited	(49)	(118)
Vested	(493)	(344)
Unvested shares as at 31 March – allocated to employees	758	679
Forfeited shares not yet reallocated – held by Trustee	57	84
	815	763
Percentage of total ordinary shares	0.8%	0.8%
Ageing of unvested shares		
Balance of shares to vest within one year	455	358
Balance of shares to vest after one year but not more than two years	303	321
	758	679

The number of shares awarded pursuant to the RSP does not equal the number of shares created for the scheme as forfeited shares are held in trust and reissued.

21. SHARE BASED PAYMENTS (CONTINUED)

Employee Share Options Scheme

Share options are granted to selected employees. The exercise price of the granted options is equal to the market price of the shares on the date of the grant.

Options are conditional on the employee completing the necessary years' service (the vesting period) as appropriate to that tranche. The options tranches are exercisable in equal amounts over five years from the grant date. No options can be exercised later than the first anniversary of the final vesting date (a total of six years from the vesting date).

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price	2012 Options (000s)	Average exercise price	2011 Options (000s)
At 1 April	-	-	-	-
Granted	2.75	200	-	-
At 31 March	2.75	200	-	-

Of the 200,000 outstanding options none were exercisable as at 31 March 2012.

Expiry date - 27 January	Exercise price	Shares (000s) 2012	Shares (000s) 2011
2013	2.75	40	-
2014	2.75	40	-
2015	2.75	40	-
2016	2.75	40	-
2017	2.75	40	-
		200	-

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was $0.70 per option.

The significant inputs into the model were the spot share price of $2.75 at the grant date, the exercise price shown above, the expected annualised volatility of 33%, a dividend yield of 0%, an expected option life of between one and six years and an annual risk-free interest rate of between 2.5% and 3.5%.

The volatility measured is the standard deviation of continuously compounded share returns and based on a statistical analysis of daily share prices over the last 12 months.

22. OPERATING LEASE COMMITMENTS

	Group 2012 ($000s)	Group 2011 ($000s)	Parent 2012 ($000s)	Parent 2011 ($000s)
Within one year	1,198	403	902	339
After one year but not more than five years	3,667	245	3,595	144
More than five years	2,943	-	2,943	-
	7,808	648	7,440	483

Operating lease commitments are for the Group's premises.

23. PROVISIONS

	Group ($000s)	Parent ($000s)
Balance at 1 April 2011	-	-
Provision for onerous lease commitments	292	275
Amounts incurred	(17)	-
Closing balance at 31 March 2012	275	275

The onerous lease provision consists of the full amount payable over the remainder of the contracts for rental on premises in Wellington and Melbourne that are no longer used by the Group and had no arrangements for subleasing at 31 March 2012.

24. GROUP ENTITIES

Subsidiaries

	Principal activity	Country of incorporation	Balance date	Interest 2012 (%)	Interest 2011 (%)
Xero Inc	Limited risk distributor	United States	31 December	100%	100%
Xero (UK) Limited	Limited risk distributor	United Kingdom	31 March	100%	100%
Xero Pty Limited	Limited risk distributor	Australia	30 June	100%	100%
Xero Trustee Limited	Trustee	New Zealand	31 March	100%	100%
Max Solutions Holdings Limited	Holding company	New Zealand	31 March	100%	15.9%
Max Solutions Limited	Business software developer	New Zealand	31 March	100%	15.9%

Xero Inc was incorporated on 24 February 2011 and commenced trading on 16 August 2011.
Xero Trustee Limited is the Trustee for Xero Limited Employee Restricted Share Plan.
During the period Xero Inc and Xero Pty Limited applied to change their balance dates from 31 December and 30 June respectively to 31 March.

25. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after balance date.

AUDITORS' REPORT

We have audited the financial statements of Xero Limited ("the Company") on pages 3 to 33, which comprise the statements of financial position as at 31 March 2012, the income statements, statements of comprehensive income, statements of changes in equity and statement of cash flow, for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 March 2012 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, Xero Limited or any of its subsidiaries other than in our capacity as auditors and providers of other assurance and taxation services. These services have not impaired our independence as auditors of the Company and the Group.

Opinion In our opinion, the financial statements on pages 3 to 33:

(i) comply with generally accepted accounting practice in New Zealand;
(ii) comply with International Financial Reporting Standards; and
(ii) give a true and fair view of the financial position of the Company and the Group as at 31 March 2012, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2012:

(i) we have obtained all the information and explanations that we have required; and
(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
Wellington, New Zealand
24 May 2012

pwc

XERO LIMITED – INCOME STATEMENTS – FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Operating revenue	4	9,341	3,158	8,858	3,868
Other income	4	325	237	325	237
Total operating revenue & other income		9,666	3,395	9,183	4,105
Operating expenses	4	18,017	12,874	17,655	13,543
Operating deficit		(8,351)	(9,479)	(8,472)	(9,438)
Net interest income	4	880	1,029	878	1,028
Net operating loss before tax		(7,471)	(8,450)	(7,594)	(8,410)
Share of profit of associate	22	10	-	-	-
Net loss before tax		(7,461)	(8,450)	(7,594)	(8,410)
Income tax expense	5	(26)	-	-	-
Net loss for the year attributable to the shareholders of the Company		(7,487)	(8,450)	(7,594)	(8,410)
Earnings per share					
Basic & diluted loss per share	7	($0.08)	($0.10)	($0.09)	($0.10)

The accompanying notes form an integral part of these financial statements

XERO LIMITED – STATEMENTS OF COMPREHENSIVE INCOME – FOR THE YEAR ENDED 31 MARCH 2011

	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Net loss after tax	(7,487)	(8,450)	(7,594)	(8,410)
Other comprehensive income				
Exchange difference on translation of international subsidiaries	(53)	31	-	-
Other comprehensive (expense)/ income for the year, net of tax	(53)	31	-	-
Total comprehensive loss for the year attributable to the shareholders of the Company	(7,540)	(8,419)	(7,594)	(8,410)

The accompanying notes form an integral part of these financial statements

XERO LIMITED - GROUP - STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Share capital ($000s)	Treasury stock ($000s)	Share based payment reserve ($000s)	Accumulated losses ($000s)	Foreign currency translation reserve ($000s)	Total equity ($000s)
Group – Year ended 31 March 2011							
Restated balance at 1 April 2010		45,270	(738)	371	(20,560)	31	24,374
Net loss after tax		-	-	-	(7,487)	-	(7,487)
Currency translation movements		-	-	-	-	(53)	(53)
Total comprehensive income		-	-	-	(7,487)	(53)	(7,540)
Transactions with owners							
Issue of ordinary shares		4,040	-	-	-	-	4,040
Issue of ordinary shares for employee restricted share plan		858	(858)	-	-	-	-
Vesting of ordinary shares in employee restricted share plan		-	483	331	-	-	814
Balance as at 31 March 2011		50,168	(1,113)	702	(28,047)	(22)	21,688
Group – Year ended 31 March 2010							
Balance at 1 April 2009		17,130	-	-	(12,110)	-	5,020
Prior period restatement	23	-	(228)	190	-	-	(38)
Restated balance at 1 April 2009		17,130	(228)	190	(12,110)	-	4,982
Net loss after tax		-	-	-	(8,450)	-	(8,450)
Currency translation movements		-	-	-	-	31	31
Total comprehensive income		-	-	-	(8,450)	31	(8,419)
Transactions with owners							
Issue of ordinary shares		28,140	-	-	-	-	28,140
Share buy back		-	(740)	-	-	-	(740)
Vesting of ordinary shares in employee restricted share plan		-	230	181	-	-	411
Balance as at 31 March 2010 as restated		45,270	(738)	371	(20,560)	31	24,374

The accompanying notes form an integral part of these financial statements

XERO LIMITED - PARENT - STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Share capital ($000s)	Treasury stock ($000s)	Share based payment reserve ($000s)	Accumulated losses ($000s)	Total equity ($000s)
Parent - Year ended 31 March 2011						
Restated balance at 1 April 2010		45,270	(729)	371	(20,511)	24,401
Net loss after tax		-	-	-	(7,594)	(7,594)
Total comprehensive income		-	-	-	(7,594)	(7,594)
Transactions with owners						
Issue of ordinary shares		4,040	-	-	-	4,040
Issue of ordinary shares for employee restricted share plan		858	(858)	-	-	-
Vesting of ordinary shares in employee restricted share plan		-	474	331	-	805
Balance as at 31 March 2011		50,168	(1,113)	702	(28,105)	21,652
Parent - Year ended 31 March 2010						
Balance at 1 April 2009		17,130	-	-	(12,101)	5,029
Prior period restatement	23	-	(228)	190	-	(38)
Restated balance at 1 April 2009		17,130	(228)	190	(12,101)	4,991
Net loss after tax		-	-	-	(8,410)	(8,410)
Total comprehensive income		-	-	-	(8,410)	(8,410)
Transactions with owners						
Issue of ordinary shares		28,140	-	-	-	28,140
Share buy back		-	(740)	-	-	(740)
Vesting of ordinary shares in employee restricted share plan		-	239	181	-	420
Balance as at 31 March 2010 as restated		45,270	(729)	371	(20,511)	24,401

The accompanying notes form an integral part of these financial statements

XERO LIMITED – STATEMENTS OF FINANCIAL POSITION – AS AT 31 MARCH 2011

	Notes	Group 2011 ($000s)	Group 2010 Restated ($000s)	Group 2009 Restated ($000s)	Parent 2011 ($000s)	Parent 2010 Restated ($000s)	Parent 2009 Restated ($000s)
Assets							
Non-current assets							
Property, plant & equipment	8	466	367	375	384	333	364
Investment in subsidiaries	21	–	–	–	262	195	195
Investment in associate	22	207	–	–	200	–	–
Intangible assets	9	4,773	2,948	2,029	4,741	2,923	2,029
Trade & other receivables	11	441	411	398	423	411	398
Total non-current assets		5,887	3,726	2,802	6,010	3,862	2,986
Current assets							
Cash & cash equivalents	10	16,922	21,397	3,807	16,651	21,236	3,720
Deferred tax benefit	5	35	–	–	–	–	–
Trade & other receivables	11	1,503	958	280	1,187	780	239
Total current assets		18,460	22,355	4,087	17,838	22,016	3,959
Total assets		24,347	26,081	6,889	23,848	25,878	6,945
Liabilities							
Current liabilities							
Trade & other payables	12	2,659	1,707	1,887	2,196	1,477	1,934
Finance lease		–	–	6	–	–	6
Total current liabilities		2,659	1,707	1,893	2,196	1,477	1,940
Non-current liabilities							
Finance lease		–	–	14	–	–	14
Total non-current liabilities		–	–	14	–	–	14
Total liabilities		2,659	1,707	1,907	2,196	1,477	1,954
Net assets		21,688	24,374	4,982	21,652	24,401	4,991
Equity							
Share capital	6	49,757	44,903	17,092	49,757	44,912	17,092
Accumulated losses		(28,047)	(20,560)	(12,110)	(28,105)	(20,511)	(12,101)
Foreign currency translation reserve	6	(22)	31	–	–	–	–
		21,688	24,374	4,982	21,652	24,401	4,991

The accompanying notes form an integral part of these financial statements

XERO LIMITED – STATEMENTS OF CASH FLOWS – FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Operating activities					
Cash was provided from					
Receipts from customers		8,615	2,851	8,308	2,300
GST received		136	64	39	48
Other income		362	123	325	123
Interest received		898	881	896	880
		10,011	3,919	9,568	3,351
Cash was applied to					
Payments to suppliers & employees		(15,231)	(10,714)	(14,934)	(10,308)
		(15,231)	(10,714)	(14,934)	(10,308)
Net cash flows from operating activities	15	(5,220)	(6,795)	(5,366)	(6,957)
Investing activities					
Cash was applied to					
Purchase of property, plant & equipment		(307)	(198)	(237)	(139)
Capitalised development costs		(2,752)	(1,749)	(2,747)	(1,749)
Intangible assets		(18)	(33)	(8)	(8)
Other assets		(18)	-	-	-
Investment in subsidiary		-	-	(67)	-
Investment in associate		(200)	-	(200)	-
Net cash flows from investing activities		(3,295)	(1,980)	(3,259)	(1,896)
Financing activities					
Cash was provided from					
Share buyback		-	(740)	-	(740)
Share issue		4,000	28,046	4,000	28,046
		4,000	27,306	4,000	27,306
Cash was applied to					
Refund/(cost) of share issue		40	(915)	40	(915)
Finance lease repayments		-	(20)	-	(20)
		40	(935)	40	(935)
Net cash flows from financing activities		4,040	26,371	4,040	26,371
Net (decrease) / increase in cash held		(4,475)	17,596	(4,585)	17,518
Foreign currency translation adjustment		-	(6)	-	(2)
Cash & cash equivalents at beginning of the year	10	21,397	3,807	21,236	3,720
Cash & cash equivalents at end of the year	10	16,922	21,397	16,651	21,236

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Xero Limited is a limited liability company, domiciled and incorporated in New Zealand and registered under the New Zealand Companies Act 1993. The registered office of the Company is Level 1, Old Bank, 98 Customhouse Quay, Wellington 6011, New Zealand.

The financial statements presented are for Xero Limited (the "Company") and its subsidiaries comprising Xero (UK) Limited, Xero Pty Limited (Australia), Xero Inc. (United States) and Xero Trustee Limited (together "the Group") for the year ended 31 March 2011.

Xero Limited is an issuer for the purposes of the Financial Reporting Act 1993.

The consolidated financial statements of the Group for the year ended 31 March 2011 were authorised for issue in accordance with a resolution of the Directors on 19 May 2011.

The Group's principal activity is the provision of a platform for online accounting and business services to small businesses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

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

The Company and Group are profit-oriented companies for financial reporting purposes.

The consolidated financial statements have been prepared using the historical cost convention.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

(b) Changes in accounting policy & disclosures The accounting policies adopted are consistent with those of the previous year.

(c) Basis of consolidation Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. 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. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(d) Associates Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Income Statement, and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Revenue Revenue in relation to subscriptions and training is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recorded net of GST and discounts and after eliminating sales within the Group. The following specific recognition criteria must also be met before revenue is recognised:

Services – Revenue is recognised in the accounting period in which the service is rendered. Consideration received prior to the service being rendered is recognised in the Statement of Financial Position as income in advance and included within trade and other payables. Revenue for which services have been rendered but invoices have not been issued is recognised within the Income Statement and in the Statement of Financial Position as accrued income within trade and other receivables.

Interest – Interest income is recognised on an accruals basis using the effective interest rate method.

Government grants – Government grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When a grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(f) Income tax Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in the Statement of Comprehensive Income or equity, in which case it is recognised in the Statement of Comprehensive Income or equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefits will be realised. As permitted by NZIAS 12: Income Taxes, deferred tax assets in relation to tax losses have been recognised to the extent of the Group's deferred tax liabilities.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different entities where there is an intention to settle the balance on a net basis.

(g) GST The Income Statement and the Statement of Cash Flows have been prepared so that all components are stated exclusive of GST, except where GST is not recoverable. All items in the Statement of Financial Position are stated net of GST with the exception of receivables and payables, which include GST invoiced.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(h) Foreign currency translation Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in New Zealand dollars ($), which is the Company's functional currency. 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. Foreign exchange gains and losses are presented in the Income Statement within operating expenses.

The Group translates the results of its foreign operations from their functional currency to the presentation currency of the Group using the closing exchange rate at balance date for assets and liabilities and the average yearly exchange rate for the income and expenses. The difference arising from translation of the Statement of Financial Position at closing rate and the Income Statement at average rate is recorded within the Foreign Currency Translation Reserve.

(i) Property, plant & equipment Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Terms of lease
Motor vehicles	3 - 4 years
Furniture & equipment	1 - 7 years
Computer equipment	2 - 3 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts, and are recognised in the Income Statement.

(j) Intangible assets

(i) Research costs are expensed as incurred.

Costs associated with maintaining internal computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the capitalised software development costs include the software development employee costs. Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives.

(ii) Other intangible assets acquired are initially measured at cost. Internally generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Income Statement in the year in which the expenditure is incurred.

The useful lives of the Group's intangible assets are assessed to be finite. Assets with finite lives are amortised over their useful lives and tested for impairment whenever there are indications that the assets may be impaired.

(iii) Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful life of the intangible asset, from the date it is available for use.

The estimated useful lives are:

Trademarks / patents	10 years
Domains	10 years
Capitalised development costs	3-5 years (2010: 3-4 years)

(k) Impairment of non-financial assets At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Non-derivative financial instruments The Group classifies its financial assets as loans and receivables. The classifications depend on the purposes for which the financial assets were acquired. Management determines the classifications of its financial assets at initial recognition.

(m) Loans & receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise "trade & other receivables" and "cash & cash equivalents" in the Statement of Financial Position. Loans and receivables are carried at amortised cost using the effective interest method. The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.(o). The Group does not have any derivatives.

(n) Cash & cash equivalents include cash in hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts.

(o) Trade & other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade 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 the receivables. The carrying amount of an asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the Income Statement.

(p) Trade & other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. The amounts are unsecured, non-interest bearing and are usually paid within 45 days of recognition.

(q) Employee entitlements The liability for employees' compensation for future leave is accrued in relation to the length of service rendered by employees and relates to the vested and unvested entitlements.

The Group operates both short-term and long-term incentive plans. Employee incentive obligations are measured on an undiscounted basis (short-term) and are expensed as the related service is provided. The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The value of the employee services received for the grant of shares is recognised as an expense over the vesting period and the amount is determined by reference to the fair value of the shares granted.

(r) Leases Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalised at the inception of the leases at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. The leased assets and corresponding liabilities are therefore recognised and the assets are depreciated in line with the Group's depreciation policy to reflect estimated useful lives.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the Income Statement as interest costs.

(s) Earnings per share The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares.

Basic EPS is calculated by dividing the Group profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Share capital 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. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Company's equity holders until the shares are cancelled or transferred outside the Group.

(u) Segment reporting An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assesses its performance, and for which discrete financial information is available. Operating segments are aggregated for disclosure purposes where they have similar products and services, production processes, customers, distribution methods and regulatory environments.

(v) Standards or interpretations issued but not yet effective
The following standards not yet effective are relevant to the Company and Group.

NZ IFRS 9 Financial Instruments – Recognition and Measurement of Financial Assets was issued in November 2009 as part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard deals with accounting for financial assets, their recognition, derecognition and measurement. Financial assets are classified according to their measurement, either at fair value or amortised cost. The standard is effective for annual periods beginning on or after 1 January 2013. It is not expected to have a material impact on the Company or Group.

There are a number of other amendments to accounting standards as part of the ongoing improvement process. None of these changes is expected to impact significantly on the Group.

The Company or Group has not adopted any standards prior to their effective date.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to the Group. Actual results may differ from the judgements, estimates and assumptions.

The significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

(a) Deferred tax asset Deferred tax benefits relating to carry forward tax losses and deductible temporary differences are recognised by the Group and Company to the extent that it is probable that taxable profits will be available against which those losses and temporary differences can be recognised. Deferred tax assets in relation to tax losses have been recognised to the extent of the Group's deferred tax liabilities.

The Group has not recognised deferred tax benefits in relation to all carry forward losses as it is not considered probable that these losses will reverse in the foreseeable future. The Company has not yet reached break-even and is expected to make a further loss in the year ending 31 March 2012. It is not considered prudent to recognise a deferred tax asset in respect of losses and other temporary differences until the point that the Company reaches break-even.

(b) Capitalised development costs The Group capitalises its development costs based on a proportion of employee costs. The percentages applied are in line with industry standards. The Group regularly reviews the carrying value of capitalised development costs to ensure they are supported by the associated future economic benefits. The development costs are amortised over three to five years, being the expected useful life of the software (2010: three to four years).

The Group took the decision to change the amortisation rate from three to four years to three to five years as it considers this period to reflect better the period in which the capitalised development costs will generate future economic benefits.

The impact of the change in the useful life of capitalised development costs from three to four years to three to five years is a decrease in the amortisation cost for the year of $880,000.

4. REVENUES & EXPENSES

	Notes	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Operating revenue from the rendering of services		9,341	3,158	8,858	3,868
Other income					
Government grants*		52	101	52	101
Research & development tax credit		273	-	273	-
Other		-	136	-	136
		325	237	325	237
Total operating revenue & other income		9,666	3,395	9,183	4,105
Operating expenses					
Employee entitlements		8,498	6,503	6,107	4,771
Advertising & marketing		2,237	1,282	1,490	823
IT infrastructure costs**		2,046	490	2,046	490
Inter company market support payments	17	-	-	3,644	3,502
Consulting & sub-contracting		412	325	368	240
Travel related		537	497	339	305
Lease/rental		472	368	433	342
Communication & office administration		325	287	246	215
Directors' fees		222	215	222	215
Fees paid to auditors	13	143	181	99	146
Loss on disposal of property, plant & equipment		-	3	-	3
Loss/(gain) on foreign exchange transactions		(40)	59	15	59
Other operating expenses		2,012	1,256	1,523	1,036
Total operating expenses exc. depreciation & amortisation		16,864	11,466	16,532	12,147
Depreciation & amortisation expense					
Property, plant & equipment	8	207	198	186	186
Amortisation of other intangible assets	9	10	6	7	6
Amortisation of development costs	9	936	1,204	930	1,204
Total depreciation & amortisation		1,153	1,408	1,123	1,396
Total operating expenses		18,017	12,874	17,655	13,543
Interest					
Interest income - bank		868	1,017	866	1,016
Interest income - loan to related party	17	8	12	8	12
Interest income - other		4	-	4	-
Net interest income		880	1,029	878	1,028
Net operating loss before tax		(7,471)	(8,450)	(7,594)	(8,410)

**Government grants have been received from New Zealand Trade and Enterprise in respect of overseas market development. The grants were claimed retrospectively on qualifying expenditure, and all conditions have been fulfilled at balance date.*

***Increase due to increased customer numbers and the introduction of Akamai services.*

5. CURRENT & DEFERRED INCOME TAX

Current income tax

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Accounting loss before income tax	(7,461)	(8,450)	(7,594)	(8,410)
At the statutory income tax rate of 30% (2010: 30%)	(2,238)	(2,535)	(2,278)	(2,523)
Non-deductible expenditure	20	21	11	13
Tax rate variance of subsidiary	(3)	-	-	-
Tax expense on share of associate company profit	3	-	-	-
Total tax losses not recognised	2,244	2,514	2,267	2,510
Income tax expense reported in Income Statement	26	-	-	-
Comprising				
Income tax	61	-	-	-
Deferred tax	(35)	-	-	-
Income tax expense	26	-	-	-
Opening balance	-	-	-	-
Income tax liability for the year	61	-	-	-
Income tax paid	-	-	-	-
Current tax payable	61	-	-	-

Imputation credit account

	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Balance as at 1 April	-	-	-	-
New Zealand income tax payments during the year	-	-	-	-
Tax refunds received	-	-	-	-
Balance at 31 March	-	-	-	-

Deferred income tax

	Provisions ($000s)	Accelerated Depreciation ($000s)	Tax losses ($000s)	Net ($000s)
Group – Deferred tax asset/(liability) balances				
At 1 April 2010	-	-	-	-
Charged to income statement	296	(571)	310	35
At 31 March 2011	296	(571)	310	35
Parent – Deferred tax asset/(liability) balances				
At 1 April 2010	-	-	-	-
Charged to income statement	261	(571)	310	-
At 31 March 2011	261	(571)	310	-

It is not anticipated that deferred tax balances will be recovered within 12 months. Deferred tax assets and liabilities have been offset where the balances are due to /receivable from the same counterparties. Deferred income tax assets are recognised for carried forward tax losses to the extent of the Company's deferred tax liabilities. The Company has unrecognised New Zealand tax losses available to carry forward of $26,698,000 (2010: $18,675,000) subject to shareholder continuity being maintained as required by New Zealand tax legislation.

6. SHARE CAPITAL

Movement in ordinary shares on issue

	Notes	Group 2011 (000s)	Group 2010 (000s)	Parent 2011 (000s)	Parent 2010 (000s)
Balance as at 1 April		87,631	55,460	87,640	55,460
Issue of ordinary shares		2,681	32,273	2,681	32,273
Issue of ordinary shares for employee restricted share plan		700	–	691	–
Ordinary shares on issue at 31 March		91,012	87,733	91,012	87,733
Treasury stock	19	763	522	763	513
Ordinary shares on issue at 31 March		90,249	87,211	90,249	87,220

All shares have been issued, are fully paid and have no par value.

The Company issued 0.6 million shares in June 2010 as part of the Company's Employee Restricted Share Plan at an average price of $1.44. In October 2010 the Company undertook a share placement whereby a total of 2.7 million new shares were issued at $1.4918.

Included within the value of share capital in 2011 are transaction costs associated with the issue of 3.3 million ordinary shares that took place in June and October 2010 and a receipt of a refund of GST on prior year overseas issue costs from the IRD. These transaction costs were directly associated with the equity transactions and accordingly have been accounted for as a deduction from equity.

Treasury stock includes shares issued in relation to the Employee Restricted Share Plan that have yet to vest.

Foreign currency translation reserve

	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Balance as at 1 April	31	–	–	–
Translation of overseas subsidiaries into presentation currency	(53)	31	–	–
Balance as at 31 March	(22)	31	–	–

Capital risk management The Group's objectives when managing capital (comprising share capital) are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, and to maintain an optimal capital structure.

7. EARNINGS PER SHARE

Loss attributable to ordinary shareholders

	Notes	Group 2011 (000s)	Group 2010 (000s)	Parent 2011 (000s)	Parent 2010 (000s)
Net loss after tax		($7,487)	($8,450)	($7,594)	($8,410)
Issued ordinary shares	6	91,012	87,733	91,012	87,733
Weighted average of issued ordinary shares		89,322	83,455	89,322	83,464
Basic & diluted loss per share		($0.08)	($0.10)	($0.09)	($0.10)

The prior period restatement of the Employee Restricted Share Plan (refer Note 23) has no impact on the Earnings per Share.

8. PROPERTY, PLANT & EQUIPMENT

	Leasehold improvements ($000s)	Motor vehicles ($000s)	Computer equipment ($000s)	Furniture & equipment ($000s)	Total ($000s)
Group – Year ended 31 March 2011					
Cost					
Balance as at 1 April 2010	255	60	422	162	899
Additions	53	20	144	90	307
Disposals	-	-	-	-	-
Foreign exchange adjustment	-	-	(1)	-	(1)
Balance as at 31 March 2011	308	80	565	252	1,205
Depreciation					
Balance as at 1 April 2010	125	48	282	77	532
Depreciation expense	57	14	109	27	207
Disposals	-	-	-	-	-
Balance as at 31 March 2011	182	62	391	104	739
Net carrying amount	126	18	174	148	466
Parent – Year ended 31 March 2011					
Cost					
Balance as at 1 April 2010	255	60	379	155	849
Additions	51	20	108	58	237
Disposals	-	-	-	-	-
Balance as at 31 March 2011	306	80	487	213	1,086
Depreciation					
Balance as at 1 April 2010	125	48	266	77	516
Depreciation expense	57	14	91	24	186
Disposals	-	-	-	-	-
Balance as at 31 March 2011	182	62	357	101	702
Net carrying amount	124	18	130	112	384

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	Leasehold improvements ($000s)	Motor vehicles ($000s)	Computer equipment ($000s)	Furniture & equipment ($000s)	Total ($000s)
Group – Year ended 31 March 2010					
Cost					
Balance as at 1 April 2009	246	60	290	126	722
Additions	9	-	148	41	198
Disposals	-	-	(14)	(5)	(19)
Foreign exchange adjustment	-	-	(2)	-	(2)
Balance as at 31 March 2010	255	60	422	162	899
Depreciation					
Balance as at 1 April 2009	82	28	183	54	347
Depreciation expense	43	20	109	26	198
Disposals	-	-	(9)	(3)	(12)
Foreign exchange adjustment	-	-	(1)	-	(1)
Balance as at 31 March 2010	125	48	282	77	532
Net carrying amount	130	12	140	85	367
Parent – Year ended 31 March 2010					
Cost					
Balance as at 1 April 2009	246	60	274	125	705
Additions	9	-	116	35	160
Disposals	-	-	(11)	(5)	(16)
Balance as at 31 March 2010	255	60	379	155	849
Depreciation					
Balance as at 1 April 2009	82	28	177	54	341
Depreciation expense	43	20	97	26	186
Disposals	-	-	(8)	(3)	(11)
Balance as at 31 March 2010	125	48	266	77	516
Net carrying amount	130	12	113	78	333

9. INTANGIBLE ASSETS

	Patents & trademarks ($000s)	Software development* ($000s)	Domains ($000s)	Total ($000s)
Group – Year ended 31 March 2011				
Cost				
Balance as at 1 April 2010	22	4,935	70	5,027
Additions	7	2,753	11	2,771
Balance as at 31 March 2011	29	7,688	81	7,798
Amortisation & impairment				
Balance as at 1 April 2010	5	2,061	13	2,079
Amortisation during the year**	2	936	8	946
Balance as at 31 March 2011	7	2,997	21	3,025
Net carrying amount	22	4,691	60	4,773
Parent – Year ended 31 March 2011				
Cost				
Balance as at 1 April 2010	22	4,935	45	5,002
Additions	4	2,747	4	2,755
Balance as at 31 March 2011	26	7,682	49	7,757
Amortisation & impairment				
Balance as at 1 April 2010	5	2,061	13	2,079
Amortisation during the year**	2	930	5	937
Balance as at 31 March 2011	7	2,991	18	3,016
Net carrying amount	19	4,691	31	4,741
Group – Year ended 31 March 2010				
Cost				
Balance as at 1 April 2009	18	2,839	70	2,927
Additions	4	2,096	-	2,100
Balance as at 31 March 2010	22	4,935	70	5,027
Amortisation & impairment				
Balance as at 1 April 2009	3	857	9	869
Amortisation during the year	2	1,204	4	1,210
Balance as at 31 March 2010	5	2,061	13	2,079
Net carrying amount	17	2,874	57	2,948

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	Patents & trademarks ($000s)	Software development* ($000s)	Domains ($000s)	Total ($000s)
Parent – Year ended 31 March 2010				
Cost				
Balance as at 1 April 2009	18	2,839	41	2,898
Additions	4	2,096	4	2,104
Balance as at 31 March 2010	22	4,935	45	5,002
Amortisation & impairment				
Balance as at 1 April 2009	3	857	9	869
Amortisation during the year	2	1,204	4	1,210
Balance as at 31 March 2010	5	2,061	13	2,079
Net carrying amount	17	2,874	32	2,923

**Capitalised development costs have been internally generated.*

***The Group took the decision to change the amortisation rate from three to four years to three to five years as it considers this period to better reflect the period in which the capitalised development costs will generate future economic benefits. The impact of the change in the useful life of capitalised development costs from three to four years to three to five years is a decrease in the amortisation cost for the year of $880,000.*

10. CASH & CASH EQUIVALENTS

	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Cash at bank	380	597	151	436
Bank term deposits	16,542	20,800	16,500	20,800
	16,922	21,397	16,651	21,236

11. TRADE & OTHER RECEIVABLES

	Notes	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Current assets					
Trade receivables		814	536	587	384
Trade receivables from related parties	17	-	-	122	-
Accrued income		350	-	221	-
Prepayments		172	178	90	156
Interest receivable		167	197	167	197
Government grant receivable		-	37	-	37
GST receivable		-	10	-	6
		1,503	958	1,187	780
Non-current assets					
Loans to Directors	17	232	336	232	336
NZX bond		75	75	75	75
Other loans		116	-	116	-
Other assets		18	-	-	-
		441	411	423	411

Trade receivables that are less than three months past due are not considered impaired. As of 31 March 2011, trade receivables of the Parent and Group of $24,000 were past due (2010: $30,000). These relate to a number of independent customers for whom there is no recent history of default. The Group has no impaired receivables.

12. TRADE & OTHER PAYABLES

	Notes	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Trade payables		915	491	768	401
Trade payables due to related parties	17	-	-	207	304
Other payables & accrued expenses		478	214	265	120
Income in advance		-	98	-	41
GST payable		145	19	33	-
Income tax payable	5	61	-	-	-
Employee entitlements		1,060	885	923	611
		2,659	1,707	2,196	1,477

13. AUDITORS' REMUNERATION

	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Amounts received or due & receivable by PricewaterhouseCoopers for:				
Audit of financial statements	86	72	42	37
Other assurance services in relation to the entity*	19	23	19	23
Taxation services**	38	86	38	86
Total fees paid to auditors	143	181	99	146

**Other assurance services relate to agreed upon procedures over the Group's half year result and the audit of the Company's share register.*
***Taxation services primarily relate to the provision of assurance services for the annual tax return.*

14. FINANCIAL INSTRUMENTS & FINANCIAL RISK MANAGEMENT OBJECTIVES

Financial instruments Financial instruments recognised in the Statement of Financial Position include cash balances, receivables and payables. It is, and has been, through the period of these financial statements, the Group's policy that no trading in financial instruments shall be undertaken.

Classification & fair values The carrying value of the Parent's and Group's financial instruments approximates their fair value. Set out below is a comparison by category of the carrying amounts of all the Parent's and Group's financial instruments and their fair values.

	Loans & receivables ($000s)	Financial liabilities at amortised cost ($000s)	Total carrying value ($000s)	Fair value ($000s)
Group – Year ended 31 March 2011				
Assets				
Trade & other receivables	981	-	981	981
Cash & cash equivalents	16,922	-	16,922	16,922
Loans to Directors	232	-	232	232
Other loans	134	-	134	134
Total financial assets	18,269	-	18,269	18,269
Liabilities				
Trade & other payables	-	1,393	1,393	1,393
Total financial liabilities	-	1,393	1,393	1,393
Group – Year ended 31 March 2010				
Assets				
Trade & other receivables	770	-	770	770
Cash & cash equivalents	21,397	-	21,397	21,397
Loans to Directors	336	-	336	336
Total financial assets	22,503	-	22,503	22,503
Liabilities				
Trade & other payables	-	705	705	705
Total financial liabilities	-	705	705	705
Parent – Year ended 31 March 2011				
Assets				
Trade & other receivables	876	-	876	876
Cash & cash equivalents	16,651	-	16,651	16,651
Loans to Directors	232	-	232	232
Other loans	116	-	116	116
Total financial assets	17,875	-	17,875	17,875
Liabilities				
Trade & other payables	-	1,240	1,240	1,240
Total financial liabilities	-	1,240	1,240	1,240

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	Loans & receivables ($000s)	Financial liabilities at amortised cost ($000s)	Total carrying value ($000s)	Fair value ($000s)
Parent – Year ended 31 March 2010				
Assets				
Trade & other receivables	618	–	618	618
Cash & cash equivalents	21,236	–	21,236	21,236
Loans to Directors	336	–	336	336
Total financial assets	22,190	–	22,190	22,190
Liabilities				
Trade & other payables	–	825	825	825
Total financial liabilities	–	825	825	825

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk.

Interest rate risk The Group's interest rate risk arises from its cash balances. These are placed on deposit at variable rates which expose the Group to cash flow interest rate risk. The Group does not enter into forward rate agreements or any interest rate hedges.

The Company's management regularly reviews its banking arrangements to ensure that it achieves the best returns on its funds while maintaining access to necessary cash levels to service the Company's day-to-day activities.

The interest rate re-pricing profiles of the Group's financial assets and liabilities subject to interest rate risk are:

	Interest rate	Balance sheet ($000s)	12 months ($000s)	24 months ($000s)	>24 months ($000s)
Group – Year ended 31 March 2011					
Financial assets					
Cash at bank	4.9%	16,922	16,922	–	–
Loans to Directors	4.0%	232	–	232	–
Other loans	4.0%	116	–	116	–
Other assets	5.5%	18	–	18	–
Total		17,288	16,922	366	–
Parent – Year ended 31 March 2011					
Financial assets					
Cash at bank	4.9%	16,651	16,651	–	–
Loans to Directors	4.0%	232	–	232	–
Other loans	4.0%	116	–	116	–
Total		16,999	16,651	348	–
Group – Year ended 31 March 2010					
Financial assets					
Cash at bank	4.5%	21,397	21,397	–	–
Loans to Directors	4.0%	336	–	–	336
Total		21,733	21,397	–	336

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14. FINANCIAL INSTRUMENTS & FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

	Interest rate	Balance sheet ($000s)	12 months ($000s)	24 months ($000s)	>24 months ($000s)
Parent – Year ended 31 March 2010					
Financial assets					
Cash at bank	5.9%	21,236	21,236	–	–
Loans to Directors	4.0%	336	–	–	336
Total		21,572	21,236	–	336

Of the financial assets and liabilities above, only the Cash at bank is subject to floating interest rate risk. Loans to Directors and other loans are subject to fixed rate interest. All other financial assets and liabilities of the Group are not subject to interest rate risk.

As at 31 March 2011 if interest rates had been 2.0% higher/lower with all other variables held constant, interest income, net loss and retained earnings for the Company and the Group would have decreased/increased by $371,000 (2010: $496,000).

Liquidity risk Liquidity risk is the risk that the Company or Group cannot pay contractual liabilities as they fall due. During the year, the Company raised $4.0 million by way of private placement. Following the receipt of the private placement funds, the Company has sufficient cash to meet its requirements in the foreseeable future. The Group has no debt and therefore management remains focused on generating sufficient revenue from sales to cover the ongoing costs of operation.

The following table sets out the undiscounted contractual cash flows for all financial liabilities of the Company and Group:

	Balance sheet ($000s)	Contractual cash flows ($000s)	6 months or less ($000s)	6–12 months ($000s)	1–2 years ($000s)	More than 2 years ($000s)
Group – Year ended 31 March 2011						
Trade payables	1,393	1,393	1,393	–	–	–
Total non-derivative liabilities	1,393	1,393	1,393	–	–	–
Parent – Year ended 31 March 2011						
Trade payables	1,240	1,240	1,240	–	–	–
Total non-derivative liabilities	1,240	1,240	1,240	–	–	–
Group – Year ended 31 March 2010						
Trade payables	705	705	705	–	–	–
Total non-derivative liabilities	705	705	705	–	–	–
Parent – Year ended 31 March 2010						
Trade payables	825	825	825	–	–	–
Total non-derivative liabilities	825	825	825	–	–	–

Credit risk Where the Group has a receivable from another party, there is a credit risk in the event of non-performance by that other party. Financial instruments that potentially subject the Group to credit risk principally consist of bank balances and receivables.

The Group manages its exposure to credit risk by monitoring the credit quality of the financial institutions that hold its cash balances. The credit risk associated with trade receivables is small because of the inherently low individual transaction value and the spread over many customers.

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Maximum exposure to credit risk at balance date

	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Cash & cash equivalents	16,922	21,397	16,651	21,236
Receivables	981	770	876	618
Non-current receivables	366	336	348	336
Total	18,269	22,503	17,875	22,190

Foreign currency risk The Group faces the risk of movements in foreign currency exchange rates against the New Zealand dollar. The Group operates in three other currencies, being UK pounds, Australian dollars and US dollars. As a result the Group's Income Statement and Statements of Financial Position can be affected by movements in exchange rates.

Both the UK and Australian operations are now self funding. The US operation is funded directly from New Zealand and will continue to require funding support for at least the next year. During this time the foreign currency risk will increasingly be mitigated by the generation of revenues in the US.

The potential effect on the Company's and Group's results if the New Zealand dollar weakens by 10% against the other operating currencies, with all other variables remaining constant, is an increase in the net loss and retained earnings for the Group by $122,000 (2010: $296,000).

15. RECONCILIATION OF OPERATING CASH FLOWS

	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Reconciliation from the net (loss) after tax to the net cash from operating activities				
Net loss after tax	(7,487)	(8,450)	(7,594)	(8,410)
Adjustments				
Depreciation	207	198	186	186
Amortisation	946	1,210	937	1,210
Deferred tax	(35)	-	-	-
Associated company profit	(7)	-	-	-
Translation of foreign operations	(53)	59	-	-
Employee entitlements	814	-	805	-
Interest on loans to directors	(8)	(12)	(8)	(12)
Interest on loans to others	(4)	-	(4)	-
Changes in working capital items				
(Increase)/decrease in trade receivables & prepayments	(545)	(680)	(407)	(547)
(Decrease)/increase in trade payables & accruals	688	359	415	356
(Decrease)/increase in GST	126	10	33	(5)
(Decrease)/increase in current tax	61	-	-	-
(Decrease)/increase in employee entitlements	175	498	312	282
(Decrease)/increase in income in advance	(98)	13	(41)	(17)
Net cash flows from operating activities	(5,220)	(6,795)	(5,366)	(6,957)

16. SEGMENT INFORMATION

The Group has three reporting segments based on the geographical locations of the operations and revenue streams.

These segments have been determined based on the reports reviewed by the Chief Operating Decision Maker to make strategic decisions.

The Group currently operates in one business segment, providing an online accounting solution for small businesses.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Board is measured in a manner consistent with that in the Income Statement. Entities are domiciled in New Zealand, the United Kingdom and Australia. Revenue from external customers is generated in their domiciliation countries, except for New Zealand where the total of revenue from other countries is $616,000 (2010: $195,000).

The total of non-current assets, other than financial instruments, located in New Zealand is $5,748,000 (2010: $3,645,000) and the total of non-current assets located in other countries is $139,000 (2010: $60,000).

	New Zealand ($000s)	United Kingdom ($000s)	Australia ($000s)	Inter-segment eliminations ($000s)	Total ($000s)
Group – Year ended 31 March 2011					
Total segment revenue	8,858	2,715	3,717	-	15,290
Inter-segment revenue	(2,305)	(1,421)	(2,223)	-	(5,949)
Revenue from external customers	6,553	1,294	1,494	-	9,341
Depreciation & amortisation	(1,123)	(9)	(21)	-	(1,153)
Interest revenue	878	-	2	-	880
Segment net (loss)/profit before tax	(7,594)	30	38	65	(7,461)
Segment net (loss)/profit after tax	(7,594)	23	19	65	(7,487)
Non-current asset additions	3,271	16	86	(58)	3,315
Segment assets	23,848	860	916	(1,277)	24,347
Segment liabilities	2,196	706	875	(1,118)	2,659
Group – Year ended 31 March 2010					
Total segment revenue	3,868	2,645	1,493	-	8,006
Inter-segment revenue	(1,346)	(2,292)	(1,210)	-	(4,848)
Revenue from external customers	2,522	353	283	-	3,158
Depreciation & amortisation	(1,396)	(6)	(6)	-	(1,408)
Interest revenue	1,028	-	1	-	1,029
Segment net (loss)/profit before & after tax	(8,410)	8	8	(56)	(8,450)
Non-current asset additions	2,264	15	49	-	2,328
Segment assets	25,878	1,153	1,107	(2,057)	26,081
Segment liabilities	1,477	1,040	1,034	(1,844)	1,707

17. RELATED PARTIES

The Company entered into the following transactions and had balances payable/receivable with the following related parties:

Xero (UK) Limited (United Kingdom)

	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Market support payments to subsidiary	-	-	1,421	2,292
Distribution charge to subsidiary	-	-	985	1,018
Due to subsidiary	-	-	(140)	(218)

Xero Pty Limited (Australia)

Market support payments to subsidiary	-	-	2,223	1,210
Distribution charge to subsidiary	-	-	1,319	353
Due from/(to) subsidiary	-	-	122	(95)

Xero Inc (United States)

Operating revenue	-	-	-	-
Operating expense	-	-	-	-
Due to subsidiary	-	-	(67)	-

Xero Inc was incorporated on 24 February 2011 but did not trade for the period.

All transactions and outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash and under normal commercial terms. None of the balances are secured.

Operating revenue/(expense) includes management fees, distributor costs and market support payments between the Company and its subsidiaries.

Xero Trustee Limited

Due from subsidiary in relation to shares issued during the year	-	-	-	9

Xero Trustee Limited was incorporated on 1 May 2008 to act as Trustee for the Xero Limited Employee Restricted Share Plan (Note 19). These balances represent forfeited shares held for future allocation.

The Group and Company entered into the following transactions and had balances payable/receivable with the following related parties:

Loans to Directors

	Loan 2011 ($000s)	Accumulated interest 2011 ($000s)	Balance outstanding 2011 ($000s)	Balance outstanding 2010 ($000s)
Guy Haddleton (Ceased to be a Director during the year)	-	-	-	112
Phil Norman	100	16	116	112
Graham Shaw	100	16	116	112
	200	32	232	336

Unsecured loans were issued to Directors during the year ended 31 March 2008 to purchase shares in the Company at $1.00 per share. Simple interest is accrued at a rate of 4%, with the loans and interest being repayable five years after the date of issue.

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17. RELATED PARTIES (CONTINUED)

Other related parties - key management & Directors

	Transaction value for year 2011 ($000s)	Transaction value for year 2010 ($000s)	Balance outstanding 2011 ($000s)	Balance outstanding 2010 ($000s)
Trade payables to related parties:				
Hamish Edwards – Openside CA Limited	21	6	-	-
Sam Morgan – Sonar 6	5	7	-	-
	26	13	-	-

All transactions and outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash and under normal commercial terms. Transactions relate to the provision of consultancy services by Openside and Sonar 6. None of the balances are secured.

Some members of key management and Directors subscribe to the Xero services provided by the Group. None of these related party transactions were significant to either the Company or the Directors.

Some members of key management participate in the Employee Restricted Share Plan (Note 19).

No amounts with any related parties have been written off or foregone during the year (2010: Nil).

Key management personnel remuneration Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and include the Chief Executive, his direct reports and Directors. The following table summarises remuneration paid to key management personnel.

	2011 ($000s)	2010 ($000s)
Short-term employee benefits	1,878	1,315
Share based payments (under the Employee Restricted Share Plan)	243	114

Key management personnel within 2011 include the country managers who now report to the Chief Executive.

18. COMMITMENTS & CONTINGENCIES

There are no capital commitments or contingent liabilities as at 31 March 2011 (2010: Nil).

19. EMPLOYEE RESTRICTED SHARE PLAN

In May 2008 the Xero Limited Employee Restricted Share Plan ('RSP') was introduced for selected executives and employees of the Group. Under the RSP, ordinary shares in Xero Limited are issued to Xero Trustee Limited, a wholly-owned subsidiary, and allocated to participants, on grant date, using funds lent to them by the Company.

Under the RSP, the shares are beneficially owned by the participants. The length of retention period before the shares vest is between one and three years. The price for each share issued during the year under the RSP is the higher of the volume-weighted average end-of-day market price reported on the New Zealand Exchange for the 20 business days immediately preceding the date on which the share is allocated or the invitation price.

If the individual is still employed by the Group at the end of this specific period, the employee is given a cash bonus that must be used to repay the loan and the shares are then transferred to the individual. The number of shares awarded is determined by the Remuneration Committee of the Board of Directors. The weighted average grant date fair value of restricted shares issued during the year was $1.44 (2010: $1.65). Shares with a grant date fair value of $483,000 vested during the year (2010: $268,000). The Group has no legal or constructive obligation to repurchase the shares or settle the RSP for cash.

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19. EMPLOYEE RESTRICTED SHARE PLAN (CONTINUED)

	Number of shares 2011 (000s)	Number of shares 2010 (000s)
Unvested shares as at 1 April	420	227
Awarded pursuant to RSP	721	476
Forfeited	(118)	(78)
Vested	(344)	(205)
Unvested shares as at 31 March	679	420
Forfeited shares not yet reallocated	84	102
	763	522
Percentage of total ordinary shares	0.8%	0.6%
Ageing of unvested shares		
Balance of shares to vest on 31 March 2012	358	205
Balance of shares to vest on 31 March 2013	321	215
	679	420

20. OPERATING LEASE COMMITMENTS FOR THE GROUP'S PREMISES

	Group 2011 ($000s)	Group 2010 ($000s)	Parent 2011 ($000s)	Parent 2010 ($000s)
Within one year	403	314	339	314
After one year but not more than five years	245	422	144	422
	648	736	483	736

21. INVESTMENT IN SUBSIDIARIES

Subsidiaries

	Country of incorporation	Balance date	Interest 2011 (%)	Interest 2010 (%)
Xero Inc	United States	31 December	100%	n/a
Xero Pty Limited	Australia	30 June	100%	100%
Xero Trustee Limited	New Zealand	31 March	100%	100%
Xero (UK) Limited (formerly Xero Live Limited)	United Kingdom	31 March	100%	100%

Xero Inc was incorporated on 24 February 2011 but did not trade for the period.
Xero Trustee Limited was incorporated on 1 May 2008 and is the Trustee for the Xero Limited Employee Restricted Share Plan.

22. INVESTMENT IN ASSOCIATE

	2011 ($000s)	2010 ($000s)
At 1 April	-	-
Acquisition of associate	200	-
Share of profit	10	-
Income tax expense	(3)	-
At 31 March	207	-

22. INVESTMENT IN ASSOCIATE (CONTINUED)

Xero Limited purchased 189 shares of Max Solutions Holdings Limited, an unlisted company, on 24 December 2010.

The Group's share of the results of its associate and its aggregated assets and liabilities is as follows:

Name	Country of incorporation	Assets ($000s)	Liabilities ($000s)	Revenues ($000s)	Profit ($000s)	Interest held
Max Solutions Holdings Limited	NZ	212	4	221	7	15.90%

Xero Limited has provided Max Solutions Holdings Limited with an unsecured debt facility of up to $100,000 that can be drawn down at any time until 31 March 2012. Interest is payable at OCR+5%. At 31 March 2011 no amounts had been drawn down.

23. PRIOR PERIOD RESTATEMENT OF EMPLOYEE RESTRICTED SHARE PLAN

In the prior year the Company treated the non-recourse loan to employees and the unvested cost of the Employee Restricted Share Plan as a receivable and accrual within the Statement of Financial Position. For the 2011 year the Company has determined that it is more appropriate to record these transactions as equity transactions. This classification is compliant with NZ IFRS. Comparative balances have been restated to reflect this change.

	31 March 2009 (as previously reported) ($000s)	Adjustment ($000s)	31 March 2009 (restated) ($000s)	31 March 2010 ($000s)	Adjustment ($000s)	31 March 2010 (restated) ($000s)
Group						
Assets						
Trade & other receivables - loans to employees	122	(122)	-	277	(277)	-
Non-current assets - loans to employees	106	(106)	-	314	(314)	-
Liabilities						
Trade & other payables - employee entitlements	(692)	190	(502)	(1,256)	371	(885)
Equity						
Treasury stock	-	228	228	147	591	738
Share based payments reserve	-	(190)	(190)	-	(371)	(371)
Parent						
Assets						
Trade & other receivables - loans to employees	122	(122)	-	277	(277)	-
Non-current assets - loans to employees	106	(106)	-	314	(314)	-
Liabilities						
Trade & other payables - employee entitlements	(634)	190	(444)	(982)	371	(611)
Equity						
Treasury stock	-	228	228	138	591	729
Share based payments reserve	-	(190)	(190)	-	(371)	(371)

24. EVENTS AFTER THE BALANCE SHEET DATE

On 6 May 2011 the Company entered into a long term agreement to lease new premises in Wellington. The lease will commence in March 2012.

AUDITORS' REPORT

We have audited the financial statements of Xero Limited on pages 4 to 30, which comprise the statements of financial position as at 31 March 2011, the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 March 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company's and Group's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors and providers of other assurance and taxation services, we have no relationship with, or interests in, Xero Limited or any of its subsidiaries. These services have not impaired our independence as auditors of the Company and Group.

Opinion In our opinion, the financial statements on pages 4 to 30:

(i) comply with generally accepted accounting practice in New Zealand;
(ii) comply with International Financial Reporting Standards; and
(ii) give a true and fair view of the financial position of the Company and Group as at 31 March 2011, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2011:

(i) we have obtained all the information and explanations that we have required; and
(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
Wellington, New Zealand
19 May 2011

PRICEWATERHOUSECOOPERS

XERO LIMITED - INCOME STATEMENTS - FOR THE YEAR ENDED 31 MARCH 2010

	Notes	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Operating revenue & other income	4	3,395	1,119	4,105	1,239
Operating expenses	4	12,874	8,364	13,543	8,487
Operating deficit		(9,479)	(7,245)	(9,438)	(7,248)
Net interest income	4	1,029	494	1,028	491
Net (loss) before tax		(8,450)	(6,751)	(8,410)	(6,757)
Income tax	5	-	-	-	-
Net (loss) after tax attributable to the shareholders of the Company		(8,450)	(6,751)	(8,410)	(6,757)
Earnings per share	7				
Basic & diluted loss per share		($0.10)	($0.12)	($0.10)	($0.12)

The accompanying notes form an integral part of these financial statements

XERO LIMITED - STATEMENTS OF COMPREHENSIVE INCOME - FOR THE YEAR ENDED 31 MARCH 2010

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Net (loss) after tax	(8,450)	(6,751)	(8,410)	(6,757)
Other comprehensive income				
Exchange difference on translation of international subsidiaries	31	(10)	-	-
Other comprehensive income for the year, net of tax	31	(10)	-	-
Total comprehensive loss for the year attributable to the shareholders of the Company	(8,419)	(6,761)	(8,410)	(6,757)

Other comprehensive income does not have any tax effect for the reporting period.

The accompanying notes form an integral part of these financial statements

XERO LIMITED - STATEMENTS OF CHANGES IN EQUITY

	Notes	Share capital ($000s)	Accumulated losses ($000s)	Foreign currency translation reserve ($000s)	Total equity ($000s)
Year ended 31 March 2010					
Group					
Balance at 1 April 2009		17,130	(12,110)	-	5,020
Net (loss) after tax		-	(8,450)	-	(8,450)
Currency translation movements		-	-	31	31
Total comprehensive income		-	(8,450)	31	(8,419)
Issue of ordinary shares		28,140	-	-	28,140
Buyback of shares		(740)	-	-	(740)
Issue of shares under Employee Restricted Share Plan		602	-	-	602
Forfeited shares not re-issued		(9)	-	-	(9)
Balance as at 31 March 2010	6	45,123	(20,560)	31	24,594
Parent					
Balance at 1 April 2009		17,130	(12,101)	-	5,029
Net (loss) after tax		-	(8,410)	-	(8,410)
Total comprehensive income		-	(8,410)	-	(8,410)
Issue of ordinary shares		28,140	-	-	28,140
Buyback of shares		(740)	-	-	(740)
Issue of shares under Employee Restricted Share Plan		602	-	-	602
Balance as at 31 March 2010	6	45,132	(20,511)	-	24,621
Year ended 31 March 2009					
Group					
Balance at 1 April 2008		16,670	(5,359)	10	11,321
Net (loss) after tax		-	(6,751)	-	(6,751)
Currency translation movements		-	-	(10)	(10)
Total comprehensive income		-	(6,751)	(10)	(6,761)
Issue of ordinary shares		460	-	-	460
Balance as at 31 March 2009	6	17,130	(12,110)	-	5,020
Parent					
Balance at 1 April 2008		16,670	(5,344)	-	11,326
Net (loss) after tax		-	(6,757)	-	(6,757)
Total comprehensive income		-	(6,757)	-	(6,757)
Issue of ordinary shares		460	-	-	460
Balance as at 31 March 2009	6	17,130	(12,101)	-	5,029

The accompanying notes form an integral part of these financial statements

XERO LIMITED – STATEMENTS OF FINANCIAL POSITION – AS AT 31 MARCH 2010

	Notes	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Assets					
Non-current assets					
Property, plant & equipment	8	367	375	333	364
Investment in subsidiaries	22	–	–	195	195
Intangible assets	9	2,948	2,029	2,923	2,029
Other non-current assets	11	725	504	725	504
Total non-current assets		4,040	2,908	4,176	3,092
Current assets					
Cash & cash equivalents	10	21,397	3,807	21,236	3,720
Trade & other receivables	11	1,235	402	1,057	361
Total current assets		22,632	4,209	22,293	4,081
Total assets		26,672	7,117	26,469	7,173
Liabilities					
Current liabilities					
Trade & other payables	12	2,078	2,077	1,848	2,124
Finance lease	13	–	6	–	6
Total current liabilities		2,078	2,083	1,848	2,130
Non-current liabilities					
Finance lease	13	–	14	–	14
Total non-current liabilities		–	14	–	14
Total liabilities		2,078	2,097	1,848	2,144
Net assets		24,594	5,020	24,621	5,029
Equity					
Share capital	6	45,123	17,130	45,132	17,130
Accumulated losses		(20,560)	(12,110)	(20,511)	(12,101)
Foreign currency translation reserve	6	31	–	–	–
		24,594	5,020	24,621	5,029

The accompanying notes form an integral part of these financial statements

XERO LIMITED - STATEMENTS OF CASH FLOWS - FOR THE YEAR ENDED 31 MARCH 2010

	Notes	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Operating activities					
Cash was provided from					
Receipts from customers		2,851	925	2,300	1,043
GST received		64	282	48	211
RWT received		-	210	-	210
Other income		123	148	123	148
Interest received		881	463	880	449
		3,919	2,028	3,351	2,061
Cash was applied to					
Payments to suppliers & employees		(10,714)	(7,172)	(10,308)	(7,055)
Income tax paid (RWT)		-	-	-	-
		(10,714)	(7,172)	(10,308)	(7,055)
Net cash flows from operating activities	16	(6,795)	(5,144)	(6,957)	(4,994)
Investing activities					
Cash was applied to					
Purchase of property, plant & equipment		(198)	(126)	(139)	(112)
Capitalised development costs		(1,749)	(1,397)	(1,749)	(1,397)
Intangible assets		(33)	(1)	(8)	(1)
Investment in subsidiaries		-	-	-	(195)
Net cash flows from investing activities		(1,980)	(1,524)	(1,896)	(1,705)
Financing activities					
Cash was provided from					
Net private placement funds received in advance		-	954	-	954
Share buyback		(740)	-	(740)	-
Share issue		28,046	-	28,046	-
		27,306	954	27,306	954
Cash was applied to					
Cost of share issue		(915)	-	(915)	-
Finance lease repayments		(20)	(6)	(20)	(6)
		(935)	(6)	(935)	(6)
Net cash flows from financing activities		26,371	948	26,371	948
Net (decrease)/increase in cash held		17,596	(5,720)	17,518	(5,751)
Foreign currency translation adjustment		(6)	10	(2)	-
Cash & cash equivalents at beginning of the year	10	3,807	9,517	3,720	9,471
Cash & cash equivalents at end of the year	10	21,397	3,807	21,236	3,720

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Xero Limited is a limited liability company, domiciled and incorporated in New Zealand and registered under the New Zealand Companies Act 1993. The registered office of the Company is Level 1, Old Bank, 98 Customhouse Quay, Wellington, New Zealand.

The financial statements presented are for Xero Limited (the "Company") and its subsidiaries comprising Xero Live Limited (United Kingdom), Xero Pty Limited (Australia) and Xero Trustee Limited (together "the Group") for the year ended 31 March 2010.

Xero Limited is an issuer for the purposes of the Financial Reporting Act 1993.

The consolidated financial statements of the Group for the year ended 31 March 2010 were authorised for issue in accordance with a resolution of the Directors on 13 May 2010.

The Group's principal activity is the provision of a platform for online accounting and business services to small and medium-sized enterprises.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

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

The Company and Group are profit-oriented companies for financial reporting purposes.

The consolidated financial statements have been prepared using the historical cost convention.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

(b) Changes in accounting policy and disclosures The accounting policies adopted are consistent with those of the previous year except as follows:

The Group has adopted the following new and amended NZ IFRS and interpretations as of 1 April 2009:

- NZ IAS 1 Presentation of Financial Statements (revised 2007) effective 1 January 2009
- NZ IFRS 8 Segment reporting effective 1 January 2009

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

NZ IAS 1 Presentation of Financial Statements (revised) separates owner and non-owner changes in equity. The Statement of Changes in Equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new Statement of Comprehensive Income. The Statement of Comprehensive Income presents all items of recognised income and expense either in one single statement or in two linked statements. The Group has elected to present two linked statements.

NZ IFRS 8 Operating Segments is applicable for financial periods beginning on or after 1 January 2009. NZ IFRS 8 replaces NZIAS 14, Segment Reporting, and requires a management approach, under which segment information is presented on the same basis as that used for internal reporting purposes to the chief operating decision-maker. The adoption of this standard has not had a material impact on the Group's financial statements.

(c) Basis of consolidation Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. 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. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(d) Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recorded net of GST and discounts and after eliminating sales within the Group. The following specific recognition criteria must also be met before revenue is recognised:

Services – Revenue is recognised in the accounting period in which the service is rendered. Consideration received prior to the service being rendered is recognised in the Statement of Financial Position as income in advance and included within trade and other payables.

Interest – Interest income is recognised on an accruals basis using the effective interest rate method.

Government grants – Grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(e) Income tax Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in the Statement of Comprehensive Income or equity, in which case it is recognised in the Statement of Comprehensive Income or equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realised.

(f) GST The Income Statement and the Statement of Cash Flows have been prepared so that all components are stated exclusive of GST, except where GST is not recoverable. All items in the Statement of Financial Position are stated net of GST with the exception of receivables and payables, which include GST invoiced.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(g) Foreign currency translation Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in New Zealand dollars ($), which is the Company's functional currency. 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. Foreign exchange gains and losses are presented in the Income Statement within operating expenses.

The Group translates the results of its foreign operations from their functional currency to the presentation currency of the Group using the closing exchange rate at balance date for assets and liabilities and the average yearly exchange rate for income and expenses. The difference arising from translation of the Statement of Financial Position at the closing rate and the Income Statement at the average rate is recorded within the Foreign Currency Translation Reserve.

(h) Property, plant & equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Terms of lease
Motor vehicles	3 - 4 years
Furniture & equipment	1 - 7 years
Computer equipment	2 - 3 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised in the Income Statement.

(i) Intangible assets

(I) Research costs are expensed as incurred.

Costs associated with maintaining internal computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the capitalised software development costs include the software development employee costs. Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives.

(II) Other intangible assets acquired are initially measured at cost. Internally generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Income Statement in the year in which the expenditure is incurred.

The useful lives of the Group's intangible assets are assessed to be finite. Assets with finite lives are amortised over their useful lives and tested for impairment whenever there are indications that the assets may be impaired.

(III) Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful life of the intangible asset, from the date it is available for use.

The estimated useful lives are:

Patents & trademarks	10 years
Domains	10 years
Capitalised development costs	3 - 4 years

(j) Impairment of non-financial assets At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Non-derivative financial instruments The Group classifies its financial assets as loans and receivables. The classifications depend on the purpose for which the financial assets were acquired. Management determines the classifications of its financial assets at initial recognition.

(l) Loans & receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the Statement of Financial Position date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and cash and cash equivalents in the Statement of Financial Position. Loans and receivables are carried at amortised cost using the effective interest method. The Group assesses at each Statement of Financial Position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2(n). The Group does not have any derivatives.

(m) Cash & cash equivalents include cash in hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts.

(n) Trade & other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade 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 the receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the Income Statement.

(o) Trade & other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. The amounts are unsecured, non-interest bearing and are usually paid within 45 days of recognition.

(p) Employee entitlements The liability for employees' compensation for future leave is accrued in relation to the length of service rendered by employees and relates to the vested and unvested entitlements.

The Group operates both short-term and long-term incentive plans. Employee incentive obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The value of the employee services received for the grant of shares is recognised as an expense over the vesting period and the amount is determined by reference to the fair value of the shares granted.

(q) Leases Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalised at the inception of the leases at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. The leased assets and corresponding liabilities are therefore recognised and the assets are depreciated in line with the Group's depreciation policy to reflect estimated useful lives.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the Income Statement as interest costs.

(r) Earnings per share The Group presents basic earnings per share (EPS) data for its ordinary shares.

Basic EPS is calculated by dividing the Group profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(s) Share capital 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. Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Company's equity holders until the shares are cancelled or transferred outside the Group.

(t) Segment reporting An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess performance, and for which discrete financial information is available. Operating segments are aggregated for disclosure purposes where they have similar products and services, production processes, customers, distribution methods and regulatory environments.

(u) Standards or interpretations issued but not yet effective The following standards not yet effective are relevant to the Company and Group.

NZ IFRS 3 Business Combinations (revised) is applicable to the Group for accounting periods beginning on or after 1 July 2009. The revised standard introduces a number of changes to the accounting for business combinations, the most significant being the requirement to expense transaction costs. The Company will apply NZ IFRS 3 (revised) to any future business combinations.

NZ IFRS 9 Financial Instruments – Recognition and Measurement of Financial Assets was issued in November 2009 as part of the International Accounting Standards Board's (IASB) project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard deals with accounting for financial assets, their recognition, derecognition and measurement. Financial assets are classified according to their measurement, either at fair value or amortised cost. The standard is effective from 1 January 2011. It is not expected to have a material impact on the Company or Group.

There are a number of other amendments to accounting standards as part of the ongoing improvement process. None of these changes is expected to impact significantly on the Group.

The Company and Group have not adopted any standards prior to their effective date.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to the Group. Actual results may differ from the judgements, estimates and assumptions.

The significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

(a) Deferred tax asset The Group has not recognised a deferred tax asset in respect of the accumulated losses and temporary differences incurred, as given the Group is in the early stage of its development and has no history of profits, it is not considered prudent to recognise an asset until the point the Group reaches break-even.

(b) Capitalised development costs The Group capitalises its development costs based on a proportion of the employee costs of staff directly attributable to software development. The proportion of costs capitalised is based on the percentage of time employees spend developing the product.

The percentages applied are in line with industry standards and predominantly range between 60% and 80% of individual software development employee costs. The development costs are amortised over the expected useful life of the software (3-4 years). The Group regularly reviews the carrying value of capitalised development costs to ensure it is supported by the associated future economic benefits.

4. REVENUES & EXPENSES

	Notes	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Operating revenue from the rendering of services		3,158	959	3,868	1,089
Other income					
Government grants*		101	125	101	125
Other		136	35	136	25
		237	160	237	150
Total revenue and other income		3,395	1,119	4,105	1,239
Operating expenses					
Employee entitlements		6,503	4,577	4,771	3,523
Advertising & marketing		1,282	633	823	369
Consulting & sub-contracting		325	298	240	160
Travel related		497	303	305	249
Lease/rental		368	387	342	285
Communication & office administration		287	227	215	156
Directors' fees		215	180	215	180
Fees paid to auditors	14	181	52	146	37
Loss on disposal of property, plant & equipment		3	7	3	4
Loss/(gain) on foreign exchange transactions		59	(9)	59	(9)
Other operating expenses		1,746	836	5,028	2,668
Total operating expenses exc. depreciation & amortisation		11,466	7,491	12,147	7,622
Depreciation & amortisation expense					
Property, plant & equipment	8	198	212	186	204
Amortisation of other intangible assets	9	6	6	6	6
Amortisation of development costs	9	1,204	655	1,204	655
Total depreciation & amortisation		1,408	873	1,396	865
Total operating expenses		12,874	8,364	13,543	8,487
Interest					
Interest income – bank		1,016	485	1,015	482
Interest income – loan to related party	18	12	12	12	12
Interest expense – finance charges payable under finance lease		1	(3)	1	(3)
Net interest income		1,029	494	1,028	491
Net (loss) before tax		(8,450)	(6,751)	(8,410)	(6,757)

**Government grants have been received from New Zealand Trade and Enterprise (NZTE) in respect of overseas market development. The grants were claimed retrospectively on qualifying expenditure, and all conditions have been fulfilled at balance date.*

5. INCOME TAX

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Accounting (loss) before income tax	(8,450)	(6,751)	(8,410)	(6,757)
At the statutory income tax rate of 30% (2009: 30%)	(2,535)	(2,025)	(2,523)	(2,027)
Non-deductible expenditure	21	5	13	5
Total tax losses not recognised	2,514	2,020	2,510	2,022
Income tax expense reported in Income Statement	-	-	-	-
Opening balance	-	210	-	210
Income tax paid (RWT)	-	-	-	-
Income tax refunded (RWT)	-	(210)	-	(210)
Current tax receivable	-	-	-	-

The Company has New Zealand tax losses available to carry forward of $18,675,000 (2009: $11,855,000) subject to shareholder continuity being maintained as required by New Zealand tax legislation.

The Company has not recognised other temporary differences of $176,171 (2009: $106,000) in terms of a deferred tax asset as outlined in Note 3 Significant Accounting Judgements.

Imputation credit account

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Balance as at 1 April	-	210	-	210
New Zealand income tax payments during the year	-	-	-	-
Tax refunds received	-	(210)	-	(210)
Balance at end of the year	-	-	-	-

6. SHARE CAPITAL

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Balance as at 1 April	17,130	16,670	17,130	16,670
Issue of ordinary shares	29,115	460	29,115	460
Cost of issue	(975)	-	(975)	-
Issued share capital	45,270	17,130	45,270	17,130
Buyback of shares	(740)	-	(740)	-
Net cost of shares issued under Employee Restricted Share Plan	602	-	602	-
Forfeited shares not re-issued	(9)	-	-	-
Treasury stock	(147)	-	(138)	-
Balance as at 31 March	45,123	17,130	45,132	17,130

Included within the value of share capital in 2010 are transaction costs associated with the issue of 32 million ordinary shares, which took place in April and May 2009. These transaction costs were directly associated with the equity transactions and accordingly have been accounted for as a deduction from equity. Included within these costs was $32,000 paid to Directors for services relating to the share issue.

Movement in ordinary shares on issue

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Balance as at 1 April	55,460	55,000	55,460	55,000
Issue of ordinary shares	32,273	460	32,273	460
Issued share capital	87,733	55,460	87,733	55,460
Buyback of shares	(500)	-	(500)	-
Shares issued under Employee Restricted Share Plan	407	-	407	-
Forfeited shares not re-issued	(9)	-	-	-
Treasury stock	(102)	-	(93)	-
Ordinary shares on issue at 31 March	87,631	55,460	87,640	55,460

All shares have been issued, are fully paid and have no par value.

During the year the Company undertook a share placement programme whereby a total of 25.8 million new shares were issued at $0.90. In May 2009 a Share Purchase Plan was completed with a total of 6.5 million new shares being issued at $0.90 to existing shareholders. In August 2009 the Company completed a share buyback, which resulted in the purchase of 500,000 shares at an average price of $1.49.

Treasury stock includes unallocated shares remaining after the issue of shares under the Employee Restricted Share Plan and forfeited shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets. As set out in Note 20, 420,000 ordinary shares are held under the Employee Restricted Share Plan and have yet to vest.

Foreign currency translation reserve

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Balance as at 1 April	-	10	-	-
Translation of overseas subsidiaries into presentation currency	(31)	(10)	-	-
Balance as at 31 March	(31)	-	-	-

Capital risk management The Group's objectives when managing capital (compromising share capital) are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, and to maintain an optimal capital structure.

7. EARNINGS PER SHARE

Loss attributable to ordinary shareholders:

	Note	Group 2010 (000s)	Group 2009 (000s)	Parent 2010 (000s)	Parent 2009 (000s)
Net (loss) after tax		($8,450)	($6,751)	($8,410)	($6,757)
Issued ordinary shares	6	87,631	55,460	87,640	55,460
Weighted average of issued ordinary shares		83,455	55,402	83,464	55,402
Basic & diluted (loss) per share		($0.10)	($0.12)	($0.10)	($0.12)

8. PROPERTY, PLANT & EQUIPMENT

	Leasehold improvements ($000s)	Motor vehicles ($000s)	Computer equipment ($000s)	Furniture & equipment ($000s)	Total ($000s)
Group – Year ended 31 March 2010					
Cost					
Balance as at 1 April 2009	246	60	290	126	722
Additions	9	-	148	41	198
Disposals	-	-	(14)	(5)	(19)
Foreign exchange adjustment	-	-	(2)	-	(2)
Balance as at 31 March 2010	255	60	422	162	899
Depreciation					
Balance as at 1 April 2009	82	28	183	54	347
Depreciation expense	43	20	109	26	198
Disposals	-	-	(9)	(3)	(12)
Foreign exchange adjustment	-	-	(1)	-	(1)
Balance as at 31 March 2010	125	48	282	77	532
Net carrying amount	130	12	140	85	367
Parent – Year ended 31 March 2010					
Cost					
Balance as at 1 April 2009	246	60	274	125	705
Additions	9	-	116	35	160
Disposals	-	-	(11)	(5)	(16)
Balance as at 31 March 2010	255	60	379	155	849
Depreciation					
Balance as at 1 April 2009	82	28	177	54	341
Depreciation expense	43	20	97	26	186
Disposals	-	-	(8)	(3)	(11)
Balance as at 31 March 2010	125	48	266	77	516
Net carrying amount	130	12	113	78	333

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8. PROPERTY, PLANT & EQUIPMENT (CONTINUED)

	Leasehold improvements ($000s)	Motor vehicles ($000s)	Computer equipment ($000s)	Furniture & equipment ($000s)	Total ($000s)
Group – Year ended 31 March 2009					
Cost					
Balance as at 1 April 2008	232	60	211	118	621
Additions	14	-	104	8	126
Disposals	-	-	(25)	-	(25)
Balance as at 31 March 2009	246	60	290	126	722
Depreciation					
Balance as at 1 April 2008	43	8	72	26	149
Depreciation expense	39	20	125	28	212
Disposals	-	-	(14)	-	(14)
Balance as at 31 March 2009	82	28	183	54	347
Net carrying amount	164	32	107	72	375
Parent – Year ended 31 March 2009					
Cost					
Balance as at 1 April 2008	232	60	198	118	608
Additions	14	-	91	7	112
Disposals	-	-	(15)	-	(15)
Balance as at 31 March 2009	246	60	274	125	705
Depreciation					
Balance as at 1 April 2008	43	8	71	26	148
Depreciation expense	39	20	117	28	204
Disposals	-	-	(11)	-	(11)
Balance as at 31 March 2009	82	28	177	54	341
Net carrying amount	164	32	97	71	364

Previously within Furniture & Equipment net carrying amounts of the Parent and Group were assets leased under a finance lease. (2009: $7,720).

9. INTANGIBLE ASSETS

	Patents & trademarks ($000s)	Capitalised development costs* ($000s)	Domains ($000s)	Total ($000s)
Group – Year ended 31 March 2010				
Cost				
Balance as at 1 April 2009	18	2,839	41	2,898
Additions	4	2,096	29	2,129
Balance as at 31 March 2010	22	4,935	70	5,027
Amortisation & impairment				
Balance as at 1 April 2009	3	857	9	869
Amortisation during year	2	1,204	4	1,210
Balance as at 31 March 2010	5	2,061	13	2,079
Net carrying amount	17	2,874	57	2,948
Parent – Year ended 31 March 2010				
Cost				
Balance as at 1 April 2009	18	2,839	41	2,898
Additions	4	2,096	4	2,104
Balance as at 31 March 2010	22	4,935	45	5,002
Amortisation & impairment				
Balance as at 1 April 2009	3	857	9	869
Amortisation during year	2	1,204	4	1,210
Balance as at 31 March 2010	5	2,061	13	2,079
Net carrying amount	17	2,874	32	2,923
Group & Parent – Year ended 31 March 2009				
Cost				
Balance as at 1 April 2008	17	1,215	41	1,273
Additions	1	1,624	–	1,625
Balance as at 31 March 2009	18	2,839	41	2,898
Amortisation & impairment				
Balance as at 1 April 2008	1	202	5	208
Amortisation during year	2	655	4	661
Balance as at 31 March 2009	3	857	9	869
Net carrying amount	15	1,982	32	2,029

**Capitalised development costs has been internally generated.*

10. CASH & CASH EQUIVALENTS

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Cash at bank	597	1,257	436	1,170
Bank term deposits	20,800	2,550	20,800	2,550
	21,397	3,807	21,236	3,720

11. TRADE & OTHER RECEIVABLES

	Note	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Current assets					
Trade receivables		536	100	384	79
Employee loans		277	122	277	122
Prepayments		178	74	156	54
Interest receivable		197	58	197	58
Government grant receivable		37	36	37	36
GST receivable		10	12	6	12
		1,235	402	1,057	361
Non-current assets					
Loans to Directors	18	336	324	336	324
NZX bond		75	75	75	75
Employee loans		314	105	314	105
		725	504	725	504

Trade receivables that are less than three months past due are not considered impaired. As of 31 March 2010, trade receivables of the Parent and Group of $30,000 were past due (2009: $3,500). These relate to a number of independent customers for whom there is no recent history of default. The Group has no impaired receivables.

12. TRADE & OTHER PAYABLES

	Note	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Trade payables		491	221	401	174
Trade payables due to related parties	18	-	-	304	208
Net private placement funds received in advance		-	954	-	954
Other payables & accrued expenses		214	125	120	96
Income in advance		98	85	41	58
GST payable		19	-	-	-
Employee entitlements		1,256	692	982	634
		2,078	2,077	1,848	2,124

13. FINANCE LEASE

	Minimum payments ($000s)	Lease interest ($000s)	Principal ($000s)
Group & Parent – Year ended 31 March 2010			
Less than one year	-	-	-
Between one & five years	-	-	-
	-	-	-
Group & Parent – Year ended 31 March 2009			
Less than one year	8	2	6
Between one & five years	24	4	20
	32	6	26

14. AUDITORS' REMUNERATION

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Amounts received or due & receivable by PricewaterhouseCoopers for:				
Audit of financial statements	72	40	37	25
Other assurance services in relation to the entity*	23	12	23	12
Taxation services**	86	-	86	-
Total fees paid to auditors	181	52	146	37

** Other assurance services relate to agreed upon procedures over the Group's half year result and the Company's share register.*

*** Taxation services relate to the provision of assurance services over the annual tax return and tax advice concerning shareholder continuity and the Company's share buyback.*

15. FINANCIAL INSTRUMENTS & FINANCIAL RISK MANAGEMENT OBJECTIVES

Financial instruments recognised in the Statement of Financial Position include cash balances, receivables, payables and finance leases. It is, and has been, through the period of these financial statements, the Group's policy that no trading in financial instruments shall be undertaken.

Classification and fair values The carrying value of the Parent's and Group's financial instruments approximates their fair value. Set out below is a comparison by category of the carrying amounts of all the Parent's and Group's financial instruments and their fair values.

	Loans & receivables ($000s)	At amortised cost ($000s)	Total carrying value ($000s)	Fair value ($000s)
Group – Year ended 31 March 2010				
Assets				
Trade & other receivables	770	-	770	770
Cash & cash equivalents	21,397	-	21,397	21,397
Loans to Directors	336	-	336	336
Total financial assets	22,503	-	22,503	22,503
Liabilities				
Trade & other payables	-	705	705	705
Total financial liabilities	-	705	705	705
Group – Year ended 31 March 2009				
Assets				
Trade & other receivables	194	-	194	194
Cash & cash equivalents	3,807	-	3,807	3,807
Loans to Directors	324	-	324	324
Total financial assets	4,325	-	4,325	4,325
Liabilities				
Finance lease – current	-	6	6	6
Finance lease – non-current	-	14	14	14
Trade & other payables	-	346	346	346
Total financial liabilities	-	366	366	366
Parent – Year ended 31 March 2010				
Assets				
Trade & other receivables	618	-	618	618
Cash & cash equivalents	21,236	-	21,236	21,236
Loans to Directors	336	-	336	336
Total financial assets	22,190	-	22,190	22,190
Liabilities				
Trade & other payables	-	825	825	825
Total financial liabilities	-	825	825	825

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	Loans & receivables ($000s)	At amortised cost ($000s)	Total carrying value ($000s)	Fair value ($000s)
Parent – Year ended 31 March 2009				
Assets				
Trade & other receivables	173	–	173	173
Cash & cash equivalents	3,720	–	3,720	3,720
Loans to Directors	324	–	324	324
Total financial assets	4,217	–	4,217	4,217
Liabilities				
Finance lease – current	–	6	6	6
Finance lease – non-current	–	14	14	14
Trade & other payables	–	478	478	478
Total financial liabilities	–	498	498	498

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk.

Interest rate risk The Group's interest rate risk arises from its cash balances. These are placed on deposit at variable rates which expose the Group to cash flow interest rate risk. The Group does not enter into forward rate agreements or any interest rate hedges.

The Company's management regularly reviews its banking arrangements to ensure that it achieves the best returns on its funds while maintaining access to necessary cash levels to service the Company's day-to-day activities.

The interest rate re-pricing profile of the Group's financial assets and liabilities subject to interest rate risk are:

	Interest rate	Balance sheet ($000s)	12 months ($000s)	24 months ($000s)	>24 months ($000s)
Group – Year ended 31 March 2010					
Financial assets					
Cash at bank	4.5%	21,397	21,397	–	–
Loans to Directors	4.0%	336	–	–	336
Total		21,733	21,397	–	336
Parent – Year ended 31 March 2010					
Financial assets					
Cash at bank	4.5%	21,236	21,236	–	–
Loans to Directors	4.0%	336	–	–	336
Total		21,572	21,236	–	336
Group – Year ended 31 March 2009					
Financial assets					
Cash at bank	5.9%	3,807	3,807	–	–
Loans to Directors	4.0%	324	–	–	324
Total		4,131	3,807	–	324

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	Interest rate	Balance sheet ($000s)	12 months ($000s)	24 months ($000s)	>24 months ($000s)
Financial liabilities					
Finance lease	12.7%	20	6	7	7
Total		20	6	7	7
Parent – Year ended 31 March 2009					
Financial assets					
Cash at bank	5.9%	3,720	3,720	–	–
Loans to Directors	4.0%	324	–	–	324
Total		4,044	3,720	–	324
Financial liabilities					
Finance lease	12.7%	20	6	7	7
Total		20	6	7	7

Of the financial assets and liabilities above only the Cash at bank is subject to floating interest rate risk. Loans to Directors and finance lease liabilities are subject to fixed rate interest. All other financial assets and liabilities of the Group are not subject to interest rate risk.

As at 31 March 2010 if interest rates had been 2.0% higher/lower with all other variables held constant, interest income, net loss and retained earnings for the Company and the Group would have decreased/increased by $496,000 (2009: $76,000).

Liquidity risk is the risk that the Company or Group cannot pay contractual liabilities as they fall due. During the year, the Company raised $23.2m by way of private placement and an additional $5.8m from a Share Purchase Plan (SPP). Following the completion of the SPP and receipt of the private placement funds, the Company has sufficient cash to meet its requirements in the foreseeable future. The Group has no debt and therefore management remains focused on generating sufficient revenue from sales to cover the ongoing costs of operation.

The following table sets out the undiscounted contractual cash flows for all financial liabilities of the Company and Group:

	Balance sheet ($000s)	Contractual cash flows ($000s)	6 months or less ($000s)	6–12 months ($000s)	1–2 years ($000s)	More than 2 years ($000s)
Group – Year ended 31 March 2010						
Trade payables	705	705	705	–	–	–
Total non-derivative liabilities	705	705	705	–	–	–
Parent – Year ended 31 March 2010						
Trade payables	825	825	825	–	–	–
Total non-derivative liabilities	825	825	825	–	–	–
Group – Year ended 31 March 2009						
Finance lease	20	24	4	4	8	8
Trade payables	346	346	346	–	–	–
Total non-derivative liabilities	366	370	350	4	8	8
Parent – Year ended 31 March 2009						
Finance lease	20	24	4	4	8	8
Trade payables	478	478	478	–	–	–
Total non-derivative liabilities	498	502	482	4	8	8

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Credit risk Where the Group has a receivable from another party, there is a credit risk in the event of non-performance by that other party. Financial instruments that potentially subject the Group to credit risk principally consist of bank balances and receivables.

The Group manages its exposure to credit risk by monitoring the credit quality of the financial institutions that hold its cash balances. The credit risk associated with trade receivables is small because of the inherently low individual transaction value and the spread over many customers.

Maximum exposure to credit risk at balance date

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Cash & cash equivalents	21,397	3,807	21,236	3,720
Receivables	770	194	618	173
Non-current receivables	336	324	336	324
Total	22,503	4,325	22,190	4,217

Foreign currency risk The Group faces the risk of movements in foreign currency exchange rates against the New Zealand dollar. The Group operates in three other currencies, being UK pounds, Australian dollars and US dollars. As a result the Group's Income Statement and Statement of Financial Position can be affected by movements in exchange rates.

Both the United Kingdom and Australian operations are funded directly from New Zealand and will continue to require funding support for at least the next year. During this time the foreign currency risk will increasingly be mitigated by the generation of revenues in those countries.

The potential effect on the Company's and Group's results if the New Zealand dollar weakens by 10% against the other operating currencies, with all other variables remaining constant, is an increase in the net loss and retained earnings for the Group of $296,000 (2009: $188,000).

16. RECONCILIATION OF OPERATING CASH FLOWS

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Reconciliation from the net (loss) after tax to the net cash from operating activities				
Net (loss) after tax	(8,450)	(6,751)	(8,410)	(6,757)
Adjustments				
Depreciation	198	212	186	204
Amortisation	1,210	661	1,210	661
Net (profit)/loss on disposal of property, plant & equipment	-	7	-	4
Translation of foreign operations	59	(10)	-	-
Employee entitlements	-	406	-	349
Interest on loans to Directors	(12)	(12)	(12)	(12)
Changes in working capital items				
(Increase)/decrease in trade receivables & prepayments	(680)	(88)	(547)	(64)
(Decrease)/increase in trade payables & accruals	359	(8)	356	191
(Increase)/decrease in GST receivable	10	103	(5)	91
(Increase)/decrease in current tax receivable	-	210	-	210
(Decrease)/increase in employee entitlements	498	75	282	75
(Decrease)/increase in income in advance	13	51	(17)	54
Issue costs	-	-	-	-
Net cash from operating activities	(6,795)	(5,144)	(6,957)	(4,994)

17. SEGMENT INFORMATION

The Group has three reporting segments based on the geographical location of the operations and revenue streams.

The Group's management and internal reporting structures are aligned to these segments.

The Group currently operates in one business segment, providing an online accounting solution for small and medium-sized enterprises.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Board is measured in a manner consistent with that in the Income Statement. Entities are domiciled in New Zealand, the United Kingdom and Australia. Revenue from external customers is generated in their domiciliation countries, except for New Zealand where the total of revenue from other countries is $195,000 (2009: $10,000).

The total of non-current assets, other than financial instruments, located in New Zealand is $3,645,000 (2009: $2,573,000) and the total of non-current assets located in other countries is $60,000 (2009: $11,000).

	New Zealand ($000s)	United Kingdom ($000s)	Australia ($000s)	Inter-segment eliminations ($000s)	Total ($000s)
Group – Year ended 31 March 2010					
Total segment revenue	3,868	2,645	1,493	-	8,006
Inter-segment revenue	(1,346)	(2,292)	(1,210)	-	(4,848)
Revenue from external customers	2,522	353	283	-	3,158
Depreciation & amortisation	(1,396)	(6)	(6)	-	(1,408)
Interest revenue	1,028	-	1	-	1,029
Segment net (loss)/profit before and after tax	(8,410)	8	8	(56)	(8,450)
Non-current asset additions	2,264	15	49	-	2,328
Segment assets	26,469	1,153	1,107	(2,057)	26,672
Segment liabilities	1,848	1,040	1,034	(1,844)	2,078
Group – Year ended 31 March 2009					
Total segment revenue	1,079	1,818	175	-	3,072
Inter-segment revenue	(304)	(1,649)	(160)	-	(2,113)
Revenue from external customers	775	169	15	-	959
Depreciation & amortisation	(865)	(7)	(1)	-	(873)
Interest revenue	491	-	-	3	494
Segment net (loss)/profit before and after tax	(6,757)	6	-	-	(6,751)
Non-current asset additions	1,737	10	4	-	1,751
Segment assets	7,173	262	85	(403)	7,117
Segment liabilities	2,144	136	25	(208)	2,097

18. RELATED PARTIES

The Company entered into the following transactions and had balances payable/receivable with the following related parties:

Xero Live Limited (United Kingdom)

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Operating revenue	-	-	2,292	1,649
Operating expense	-	-	1,018	216
Due to subsidiary	-	-	218	195

Xero Pty Limited (Australia)

Operating revenue	-	-	1,210	160
Operating expense	-	-	353	71
Due to subsidiary	-	-	95	13

All transactions and outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash and under normal commercial terms. None of the balances are secured.

Operating revenue/(expense) includes management fees, distributor costs and market support payments between the Company and its subsidiaries.

Xero Trustee Limited

Due from subsidiary	-	-	9	-

Xero Trustee Limited was incorporated on 1 May 2008 to act as Trustee for the Xero Limited Employee Restricted Share Plan (Note 20). This balance represents forfeited shares held for future allocation.

The Group and Company entered into the following transactions and had balances payable/receivable with the following related parties:

Loans to Directors

	Loan 2010 ($000s)	Accumulated interest 2010 ($000s)	Balance outstanding 2010 ($000s)	Balance outstanding 2009 ($000s)
Guy Haddleton	100	12	112	108
Phil Norman	100	12	112	108
Graham Shaw	100	12	112	108
	300	36	336	324

Unsecured loans were issued to Directors during the year ended 31 March 2008 to purchase shares in the Company at $1.00 per share. Simple interest is accrued at a rate of 4%, with the loans and interest being repayable 5 years after the date of issue.

Other related parties – key management and Directors

	Transaction value for year 2010 ($000s)	Transaction value for year 2009 ($000s)	Balance outstanding 2010 ($000s)	Balance outstanding 2009 ($000s)
Trade payables to related parties:				
Hamish Edwards – Openside CA Limited	6	10	-	-
Sam Morgan – Sonar 6	7	-	-	-
Employee loans (under Employee Restricted Share Plan)	147	65	147	65
	160	75	147	65

All transactions and outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash and under normal commercial terms. Transactions relate to the provision of consultancy services by Openside and Sonar 6. None of the balances are secured.

Some members of key management and Directors subscribe to the Xero services provided by the Group. None of these related party transactions were significant to either the Company, key management or the Directors.

Some members of key management participate in the Employee Restricted Share Plan (Note 20).

No amounts with any related parties have been written off or foregone during the year (2009: Nil).

Key management personnel remuneration Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and includes the Chief Executive and his direct reports and the Directors. The following table summarises remuneration paid to key management personnel.

	2010 ($000s)	2009 ($000s)
Short-term employee benefits	1,315	1,475
Share-based payments (under Employee Restricted Share Plan)	114	157

19. COMMITMENTS & CONTINGENCIES

There are no capital commitments or contingent liabilities as at 31 March 2010 (2009: Nil).

20. EMPLOYEE RESTRICTED SHARE PLAN

In May 2008 the Xero Limited Employee Restricted Share Plan (RSP) was introduced for selected executives and employees of the Group. Under the RSP, ordinary shares in Xero Limited are issued to Xero Trustee Limited, a wholly owned subsidiary, and allocated to participants, on grant date, using funds lent to them by the Company, shown as employee loans in Note 11.

Under the RSP, the shares are beneficially owned by the participants. The length of retention period before the shares vest is between one and three years. The price for each share issued during the year under the RSP is the higher of the volume-weighted average end-of-day market price reported on the New Zealand Exchange for the 20 business days immediately preceding the date on which the share is allocated or the invitation price.

If the individual is still employed by the Group at the end of this specific period, the employee is given a cash bonus that must be used to repay the loan and the shares are then transferred to the individual. The number of shares awarded is determined by the Remuneration Committee of the Board of Directors. The weighted average grant date fair value of restricted shares issued during the year was $1.65 (2009: $1.00). Shares with a grant date fair value of $268,000 vested during the year (2009: $233,000). The Group has no legal or constructive obligation to repurchase the shares or settle the RSP for cash.

	Number of shares 2010 (000s)	Number of shares 2009 (000s)
Unvested shares as at 1 April	227	-
Awarded pursuant to RSP	476	460
Forfeited	(78)	-
Vested	(205)	(233)
Unvested shares as at 31 March	420	227
Percentage of total ordinary shares	0.5%	0.4%
Ageing of unvested shares		
Balance of shares to vest on 31 March 2010	205	122
Balance of shares to vest on 31 March 2011	215	105
	420	227

The number of shares awarded pursuant to the RSP does not equal the number of shares created for the scheme as forfeited shares are held in trust and re-issued.

21. OPERATING LEASE COMMITMENTS

	Group 2010 ($000s)	Group 2009 ($000s)	Parent 2010 ($000s)	Parent 2009 ($000s)
Within one year	314	456	314	456
After one year but not more than five years	422	635	422	635
	736	1,091	736	1,091

Operating lease commitments are for the Group's premises.

22. GROUP ENTITIES

Subsidiaries

	Country of incorporation	Balance date	Interest 2010 (%)	Interest 2009 (%)
Xero Live Limited	United Kingdom	31 March	100	100
Xero Pty Limited (formerly Xero Live Pty Limited)	Australia	30 June	100	100
Xero Trustee Limited	New Zealand	31 March	100	100

Xero Trustee Limited was incorporated on 1 May 2008 and is the Trustee for the Xero Limited Employee Restricted Share Plan.

23. EVENTS AFTER THE BALANCE SHEET DATE

There are no subsequent events.

AUDITORS' REPORT

To the shareholders of Xero Limited We have audited the financial statements on pages 6 to 29. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 March 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 10 to 13.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibilities The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 March 2010 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors and providers of other assurance and taxation related services.

Unqualified Opinion We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(b) the financial statements on pages 6 to 29:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (ii) give a true and fair view of the financial position of the Company and Group as at 31 March 2010 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 13 May 2010 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
Wellington, New Zealand

PRICEWATERHOUSECOOPERS