

# 2008

## Jade Software Corporation

### Interim Report



**J A D E**™

Jade Software Corporation Limited and Group



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## MANAGING DIRECTOR'S REPORT



The business achieved in excess of 36 per cent growth in operating revenue for the first half of 2008 compared to the same period in 2007. Revenue from Operations grew from \$16.9 million in the first half of last year to \$23.1 million in the six months to 30 June 2008.

Growth in total revenue, including one off gains in the comparable period in the prior year, was somewhat less dramatic but still impressive at 17 per cent.

The revenue growth was fuelled by two acquisitions in the second half of 2007 – Empower Masterpay, an Australian HR and Payroll IT services company, and Methodware, a supplier of Governance, Risk and Compliance Software, as well as from organic growth from existing customers.

Last year we invested over \$12 million in acquisitions from existing cash reserves. In the first half of this year we invested a further \$2.3 million in software product development, which was capitalised, and a further \$1.6 million in software research and development which was expensed – that's over 16 per cent of revenue for the period.

These accelerated levels of investment will result in a strong foundation for continued future growth but make it difficult to compare profitability between the first half of 2008 and the comparable period in the prior year. EBITDA in the first half of 2008 at \$4.4 million was down 34 per cent from \$6.7 million in the comparable period in 2007. However after adjusting for one off profits in the comparative figures in 2007, EBITDA from continuing operations has actually increased by 19 per cent.

On balance the first half of 2008 was tough for Jade. Customers appeared to be facing increasing cost pressures and faltering demand, postponing discretionary investment decisions in the face of mounting uncertainty about their own business prospects. This together with a \$1 million increase in amortisation related to the acquisitions has reflected in net profit before tax of \$1.4 million, a reduction of \$0.7 million compared to the same period in 2007 after adjusting for one-off gains.

The surge in revenue, business activity and JADE process licenses on issue is however very encouraging. The Java, .NET and database interoperability features already deployed and planned in upcoming releases of JADE are exciting and put us in the way of increased opportunities.

Major new projects to "Go Live" in the first half included Harbour and fleet management software for Rio Tinto, HR and Payroll for Toll New Zealand, New rules engines for the NZ Electricity Commission, a new Operating Theatre System for the Department of Health and Families in Australia's Northern Territories, Train scheduling systems for Toronto's Passenger Rail System and Governance, and Risk and Compliance software for Royal Bank of Scotland. Upgrades and extensions with existing customers included UK mortgage processor Homeloan Management Ltd and health software company Ascribe PLC, as well as HR and Payroll solutions for Department of Education in Tasmania and Bendigo Bank.

Longer term strategic initiatives include developing relationships with established systems integrators and supplying services through specialist software and service suppliers, while continuing to invest in our own direct to market capability in areas such as Logistics, Investigative tools and Governance Risk and Compliance. We also continue to evaluate opportunities to grow by acquiring businesses with strategic fit that represent value to us.

## MANAGING DIRECTOR'S REPORT continued

We now employ over 330 people, two thirds of them in New Zealand. Having the right people with the right qualifications, skills and experiences in the right roles to meet customer demands cost effectively is critical to our future success and our ability to attract and retain customers, staff and capital. In an industry known for high staff turnover, over 10 per cent of our staff have twenty or more years of service with the company and our staff turnover rate among skilled developers is comfortably less than 10 per cent per annum.

Our focus is on building recurring revenue to reduce the risk in the business. In the first half of the year over 60 per cent of our revenue was contracted for a year or more in advance. We strive to increase revenues from replicating things we already do, as well as standardising a range of processes around service delivery by improving our project management, qualification and testing and support activities.

We will continue to invest to take existing applications and new products to new markets but we are also committed to increasing the market share of our existing products and services in the markets in which we currently operate and serving our valued existing customers with more consistent on time delivery.

When we deliver, we empower and that is the basis of sustainable, profitable growth.



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Dr Rod Carr – Managing Director

# INCOME STATEMENTS

## FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Note	Unaudited Interim Period Ending		12 months to
		30 June 2008 \$000's	30 June 2007 \$000's	31 December 2007 \$000's
Revenue	2	23,572	20,131	42,023
Expenditure		19,153	13,461	31,678
<b>Profit before depreciation, amortisation, financing and tax</b>		<b>\$4,419</b>	<b>\$6,670</b>	<b>\$10,345</b>
Depreciation and amortisation		3,139	2,386	5,198
<b>Profit before financing and tax</b>		<b>\$1,280</b>	<b>\$4,284</b>	<b>\$5,147</b>
Finance income		321	815	1,272
Finance expense		235	98	345
<b>Profit before income tax</b>		<b>\$1,366</b>	<b>\$5,001</b>	<b>\$6,074</b>
Income tax expense / (credit)		490	140	(1,879)
<b>Profit attributable to equity holders of the Parent</b>		<b>\$876</b>	<b>\$4,861</b>	<b>\$7,953</b>

*The statement of accounting policies and accompanying notes form an integral part of these financial statements.*

## STATEMENTS OF CHANGES IN EQUITY

### FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Unaudited Interim Period Ending		12 months to
	30 June 2008 \$000's	30 June 2007 \$000's	31 December 2007 \$000's
Equity at the beginning of the period	29,480	28,694	28,694
Exchange differences on translation of foreign operations	848	250	22
Fair value gains on available-for-sale financial assets	-	1,538	42
Fair value gains on available-for-sale financial assets transferred to income statement	-	-	(673)
<b>Net revenues / (expenses) recognised directly in contributed equity</b>	<b>\$848</b>	<b>\$1,788</b>	<b>\$(609)</b>
Profit for the period	876	4,861	7,953
<b>Total recognised revenues and expenses for the period</b>	<b>\$1,724</b>	<b>\$6,649</b>	<b>\$7,344</b>
Repurchase of shares	(24)	-	(6,713)
Cancellation of outperformance share	-	-	(25)
Issue of put option	-	-	180
<b>Equity at the end of the period</b>	<b>\$31,180</b>	<b>\$35,343</b>	<b>\$29,480</b>

*The statement of accounting policies and accompanying notes form an integral part of these financial statements.*

# BALANCE SHEETS

AS AT 30 JUNE 2008

	Note	Unaudited Interim Period Ending		12 months to
		30 June 2008 \$000's	30 June 2007 \$000's	31 December 2007 \$000's
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents		11,563	23,813	11,184
Trade and other receivables		8,631	9,135	8,076
Current tax assets		441	33	470
Contracts in progress		584	543	547
		<u>21,219</u>	<u>33,524</u>	<u>20,277</u>
<b>Non Current Assets</b>				
Trade and other receivables		47	42	309
Available-for-sale financial assets		-	5,619	-
Deferred tax assets		2,335	-	2,341
Property, plant and equipment		1,470	1,187	1,533
Intangible assets	3	27,468	7,420	27,258
		<u>31,320</u>	<u>14,268</u>	<u>31,441</u>
<b>Total Assets</b>		<b>\$52,539</b>	<b>\$47,792</b>	<b>\$51,718</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Trade and other payables		10,659	6,130	11,130
Interest-bearing liabilities	4	351	2,720	2,938
Current tax liabilities		146	267	227
Provisions		146	937	495
		<u>11,302</u>	<u>10,054</u>	<u>14,790</u>
<b>Non Current Liabilities</b>				
Trade and other payables		1,851	2,238	2,044
Interest-bearing liabilities	4	6,306	157	3,697
Deferred tax liabilities		1,900	-	1,707
		<u>10,057</u>	<u>2,395</u>	<u>7,448</u>
<b>Total Liabilities</b>		<b>\$21,359</b>	<b>\$12,449</b>	<b>\$22,238</b>
<b>NET ASSETS</b>		<b>\$31,180</b>	<b>\$35,343</b>	<b>\$29,480</b>
<b>EQUITY</b>				
Contributed equity		57,994	64,576	58,018
Reserves		317	4,890	(531)
Retained earnings		(27,131)	(34,123)	(28,007)
<b>TOTAL EQUITY</b>		<b>\$31,180</b>	<b>\$35,343</b>	<b>\$29,480</b>

*The statement of accounting policies and accompanying notes form an integral part of these financial statements.*

# CASH FLOW STATEMENTS

## FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Note	Unaudited Interim Period Ending		12 months to
		30 June 2008 \$000's	30 June 2007 \$000's	31 December 2007 \$000's
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Receipts from customers		22,380	17,803	41,170
Interest and dividends received		323	913	1,419
Interest tax received		-	179	-
Government grants received for market development		43	-	5
		<u>22,746</u>	<u>18,895</u>	<u>42,594</u>
<b>Cash was applied to:</b>				
Payments to suppliers and employees		19,545	13,752	34,274
Interest paid		109	98	224
Taxes paid		283	135	252
		<u>19,937</u>	<u>13,985</u>	<u>34,750</u>
<b>Net cash flows from operating activities</b>	5	<b>\$2,809</b>	<b>\$4,910</b>	<b>\$7,844</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Sale of property, plant and equipment		-	-	50
Government grants received for software development		239	-	173
		<u>239</u>	<u>-</u>	<u>223</u>
<b>Cash was applied to:</b>				
Purchase of property, plant and equipment		366	214	445
Acquisition of businesses, net of cash and overdrafts acquired		37	295	13,167
Purchase of software		53	-	121
Software development capitalised		2,323	1,609	3,383
		<u>2,779</u>	<u>2,118</u>	<u>17,116</u>
<b>Net cash flows from investing activities</b>		<b>\$(2,540)</b>	<b>\$(2,118)</b>	<b>\$(16,893)</b>

*The statement of accounting policies and accompanying notes form an integral part of these financial statements.*

**CASH FLOW STATEMENTS** continued  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	Unaudited Interim Period Ending		12 months to
	30 June 2008 \$000's	30 June 2007 \$000's	31 December 2007 \$000's
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was applied to:</b>			
Repayment of finance leases	192	72	225
Repurchase of shares, including costs	24	-	33
Cancellation of outperformance share	-	-	25
Repayment of debt on acquisition	-	-	709
	216	72	992
<b>Net cash flows from financing activities</b>	<b>\$(216)</b>	<b>\$(72)</b>	<b>\$(992)</b>
<b>Net increase / (decrease) in cash held</b>	<b>\$53</b>	<b>\$2,720</b>	<b>\$(10,041)</b>
Add opening cash and cash equivalents	11,184	21,160	21,160
Effect of exchange rate changes on net cash	326	(67)	65
<b>Closing cash and cash equivalents</b>	<b>\$11,563</b>	<b>\$23,813</b>	<b>\$11,184</b>

*The statement of accounting policies and accompanying notes form an integral part of these financial statements.*

# **NOTES TO THE FINANCIAL STATEMENTS**

## **FOR THE SIX MONTHS ENDED 30 JUNE 2008**

### **1. STATEMENT OF ACCOUNTING POLICIES**

#### **BASIS OF PREPARATION**

The consolidated interim financial statements presented here are those of Jade Software Corporation Limited and its subsidiaries (the Group).

The consolidated interim financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993, and under the historical cost convention as modified by the revaluation of available-for-sale financial assets. They should be read in conjunction with the financial statements for the year ended 31 December 2007.

The Group is a profit-oriented entity and its consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with NZ IAS 34 Interim Financial Reporting.

The Board of Directors authorised the consolidated interim financial statements on 7 August 2008.

#### **ACCOUNTING POLICIES**

The accounting policies used are consistent with those in the annual report for the year ended 31 December 2007 and have been applied to all periods in the consolidated interim financial statements.

There were no changes to the accounting policies, however certain comparatives have been restated to comply with the current period's presentation.

**NOTES TO THE FINANCIAL STATEMENTS** continued  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**2. REVENUE**

	Unaudited Interim Period Ending		12 months to
	30 June 2008 \$000's	30 June 2007 \$000's	31 December 2007 \$000's
Sale of goods	2,516	1,506	3,087
Rendering of services	20,158	15,125	34,262
Royalty income	460	290	789
	23,134	16,921	38,138
<b>Other Income:</b>			
Rental income	216	154	397
Sundry revenue	169	86	222
Government grants	53	-	37
Profit on sale of Health software, customer contracts and goodwill	-	2,970	2,589
Profit on sale of shares held In Ascribe PLC	-	-	640
	<b>\$23,572</b>	<b>\$20,131</b>	<b>\$42,023</b>

Rendering of services represents contract income earned during the period.

## NOTES TO THE FINANCIAL STATEMENTS continued

### FOR THE SIX MONTHS ENDED 30 JUNE 2008

#### 3. INTANGIBLE ASSETS

	Unaudited Interim Period Ending		12 Months To
	30 June 2008 \$000's	30 June 2007 \$000's	31 December 2007 \$000's
<b>a. Goodwill</b>			
Book value at beginning of period	11,227	-	-
Businesses acquired as originally reported	-	-	11,952
Adjustments to provisional fair values of assets and liabilities acquired	-	-	(114)
Additional directly attributable costs	-	-	37
Deferred consideration not payable	-	-	(565)
Currency translation	327	-	(83)
<b>Book value at end of period</b>	<b>\$11,554</b>	<b>\$-</b>	<b>\$11,227</b>
Allocated to cash generating units:			
Methodware Limited	8,326	-	8,326
Empower Masterpay Pty Ltd	3,228	-	2,901
	<b>\$11,554</b>	<b>\$-</b>	<b>\$11,227</b>

Adjustments to the fair values of assets and liabilities that were determined provisionally on acquisition, and additional acquisition costs incurred during 2008, have been reported within the 2007 comparatives as if these adjustments had occurred on the acquisition date.

Additionally, deferred consideration estimated during 2007 as payable to the vendors of Empower Masterpay Pty Ltd (Empower) has been reversed at 31 December 2007, as the revenue received by Empower for the twelve months ended 30 June 2008 was below the limit at which the deferred consideration became payable.

Accordingly, goodwill reported at 31 December 2007 has decreased by \$625,263, and corresponding adjustments have been made to increase trade and other receivables by \$141,964, decrease trade and other payables by \$511,236, and increase deferred tax liabilities by \$27,937.

	Unaudited Interim Period Ending		12 Months To
	30 June 2008 \$000's	30 June 2007 \$000's	31 December 2007 \$000's
<b>b. Total Intangible Assets</b>			
Goodwill	11,554	-	11,227
Capitalised software development	9,357	7,420	8,993
Customer and reseller contracts	6,557	-	7,038
	<b>\$27,468</b>	<b>\$7,420</b>	<b>\$27,258</b>

**NOTES TO THE FINANCIAL STATEMENTS** continued  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**4. INTEREST-BEARING LIABILITIES**

	Unaudited Interim Period Ending		12 Months To
	30 June 2008 \$000's	30 June 2007 \$000's	31 December 2007 \$000's
<b>Current:</b>			
Finance leases	351	151	357
Convertible loan notes (secured)	-	2,569	2,581
	<b>\$351</b>	<b>\$2,720</b>	<b>\$2,938</b>
<b>Non Current:</b>			
Finance leases	262	157	376
Convertible loan notes (secured)	2,597	-	-
Put option to purchase own shares (secured)	3,447	-	3,321
	<b>\$6,306</b>	<b>\$157</b>	<b>\$3,697</b>
<b>Total interest-bearing liabilities</b>	<b>\$6,657</b>	<b>\$2,877</b>	<b>\$6,635</b>

**Convertible Loan Notes**

On 30 April 2008 Jade Software Corporation UK Limited (previously Jade Direct (UK) Limited), a wholly owned subsidiary of Jade Software Corporation Limited, entered into a Deed of Amendment with Skipton Building Society regarding the 1 million £1.00 convertible loan notes held by Skipton Building Society.

The Deed of Amendment extended the term of the convertible loan notes for three years, to 30 June 2011. Interest is payable on the convertible loan notes at a rate of 7% per annum, an increase of 1% per annum from 30 June 2008.

The convertible loan notes have accordingly been reclassified as a non current liability.

**Put Option to Purchase Own Shares**

The put option liability relates to the agreement made by Jade Software Corporation Limited on 2 July 2007 to purchase 20,000,000 of its own shares from the vendors of Methodware Limited, at their option, in July 2010 at a price of 20 cents per shares.

The liability has been measured at the present value of the option exercise price.

## NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 5. RECONCILIATION OF OPERATING CASH FLOW WITH NET PROFIT AFTER TAX

	Unaudited Interim Period Ending		12 Months To
	30 June 2008 \$000's	30 June 2007 \$000's	31 December 2007 \$000's
<b>Reported net profit after tax</b>	<b>\$876</b>	<b>\$4,861</b>	<b>\$7,953</b>
<b>Add / (less): Non-cash and non-operating items</b>			
Depreciation and amortisation	3,139	2,386	5,198
Loss on sale of property, plant and equipment	1	2	16
Provision decrease	(290)	(603)	(1,098)
Foreign exchange movement on non-operating items	(92)	25	23
Deferred tax	259	-	(2,105)
Interest on put option liability	126	-	121
Investment acquired as part of sale of Health software, customer contracts and goodwill	-	-	(2,589)
Profit on sale of investments	-	-	(640)
	<b>\$3,143</b>	<b>\$1,810</b>	<b>\$(1,074)</b>
<b>Add / (less): Movements in working capital</b>			
(Increase) / decrease in receivables	(303)	(2,764)	1,934
(Increase) in contracts in progress	(21)	(42)	(27)
(Decrease) / increase in payables	(834)	1,164	(916)
(Decrease) in income tax	(52)	(119)	(26)
	<b>\$(1,210)</b>	<b>\$(1,761)</b>	<b>\$965</b>
<b>Reported net cash flows from operating activities</b>	<b>\$2,809</b>	<b>\$4,910</b>	<b>\$7,844</b>