

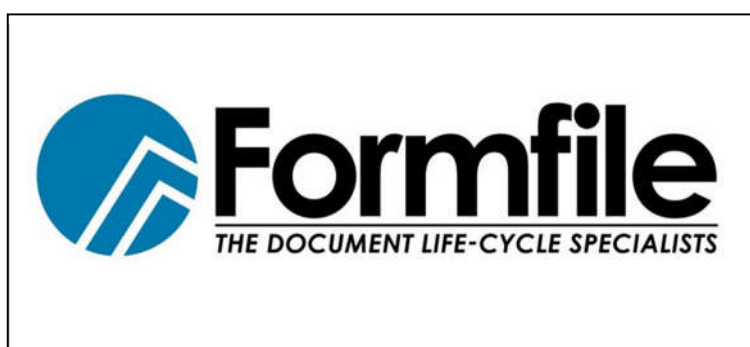
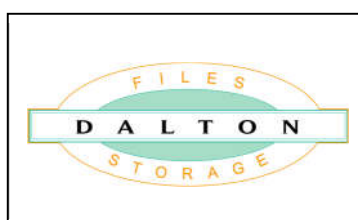


Annual Report

For the year ended 31 March 2016



G3 GROUP





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Chairman & CEO Report

21 June 2016

G3 Group Limited
309 Rosebank Road, Avondale
Auckland, New Zealand
Phone: +64 9 307 5858
Email: info@nzmail.co.nz

“Through its document & data management services, G3 offers its customers multi-channel communication delivery with evolving technology solutions”

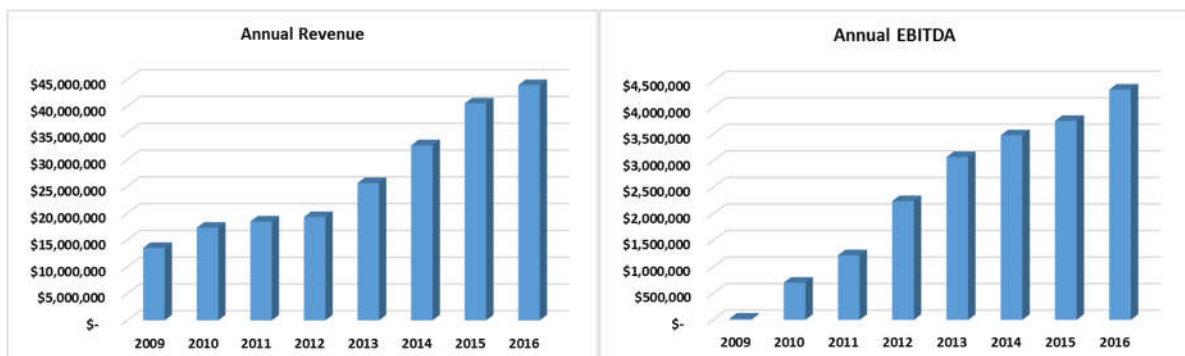
Welcome to our latest Annual Report. We are pleased to announce that our international document management, tourism collateral and business mail brands have reported a profit (NPAT) increase of 12.2% on the previous financial year to \$2.14 million. Strong performance across all of our traditional businesses and recent acquisitions saw group revenue rise 8.4% to \$43.95 million. EBITDA increased 16% from \$3.75 million to \$4.34 million.

Selected Financial Information

	12 months ended 31-Mar-15 Audited NZ\$'000	12 months ended 31-Mar-16 Audited NZ\$'000	Change
Revenues	40,527	43,945	8.4%
EBITDA	3,749	4,339	15.7%
NPAT	1,909	2,142	12.2%

This positive trading result also offset the one-off costs of listing on the NXT in the first half of the year and new costs associated with the introduction of an employee share scheme totalling \$227k and \$345k respectively.

Since listing on the NXT market 12 months ago, we have done what we have said we would do - achieved our growth targets for the period - leveraging our traditional businesses, successfully expanded via acquisition into document and data management, and into Australia. And we will continue to deliver on these strategies.





Chairman & CEO Report Cont...

Outlook

G3's growth strategy is based on:

- Continuing to grow the existing business operations with market share gain and delivering on initiatives to increase margins
- Acquiring businesses which are complementary to the existing business operations
- Acquiring technology businesses that focus on data management

Our management team is actively looking to further expand the group. We have completed 5 successful acquisitions in the past 3 years and are currently looking at a number of new acquisition opportunities that are focused on the deployment of document and data management technologies.

Notably, during the past 12 months we have made acquisitions in the large and expanding document management markets of New Zealand and Australia. These acquisitions have also seen us enter into digital data services for small to medium businesses using evolving technology platforms.

G3 will invest further in transformational new technology as part of its continuing strategic expansion.

The past year has been about forming a solid platform for future growth, in our chosen markets of New Zealand, Australia and in the UK. The distraction and cost of listing on the NXT market is now behind us. We are forecasting continued strong growth across our businesses.

Yours sincerely

Rob Campbell

Chairman

Mark Brightwell

CEO





Directors' Report

We have compiled the annual reports of G3 Group Limited and Subsidiaries for the year ended 31 March 2016.

The Board of Directors present their report for the year ended 31 March 2016 including the consolidated financial statements of the company and its subsidiaries.

For and on behalf of the board this

24th day of June 2016.

24th June 2016

24th June 2016

Date

Date

Independent Auditor's Report



Independent auditor's report

To the shareholders of G3 Group Limited

We have audited the accompanying consolidated financial statements of G3 Group Limited and its subsidiaries ("the group") on pages 6 to 51. The financial statements comprise the consolidated statement of financial position as at 31 March 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in the auditor's 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's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements 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 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 presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position and our qualified opinion on financial performance and cash flows.

Independent Auditor's Report (continued)



Our firm has also provided other services to the group in relation to taxation and advisory services. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Basis for qualified opinion on financial performance and cash flows

Because we were appointed auditor of G3 Group Limited during the previous year, we were not able to attend the counting of physical inventories at the beginning of that period or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of cost of sales, income taxes, and net profit for the year reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows for the year ended 31 March 2015. The audit opinion on the financial statements for the year ended 31 March 2015 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

Qualified opinion on financial performance and cash flows

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for qualified opinion paragraph, the consolidated financial statements on pages 6 to 51 present fairly, in all material respects, the consolidated financial performance and consolidated cash flows for the year ending 31 March 2016, in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards).

Opinion on financial position

In our opinion the consolidated financial statements on pages 6 to 51 present fairly, in all material respects, the consolidated financial position of the group as at 31 March 2016, in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards).

A handwritten signature in blue ink, appearing to read 'KPMG'.

30 May 2016
Auckland

G3 GROUP LIMITED AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income For the Year Ended 31 March 2016

	Note	2016 \$'000	2015 \$'000
Revenue	1	43,945	40,527
Other income		18	75
Expenditure	2	(40,456)	(37,053)
Net finance costs	3	(488)	(952)
Finance income		19	42
Finance expenses		(507)	(996)
Profit before income tax		3,019	2,597
Income tax expense	5	(877)	(688)
Profit for the year after taxation		2,142	1,909
Profit for the year attributed to:			
Owners of parent		2,142	1,909
Non-controlling interest		-	-
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss:			
Translation of foreign operations		(93)	(3)
Other comprehensive income/(loss) for the year, net of income tax		(93)	(3)
Total comprehensive income for the year		2,049	1,906
Total comprehensive income for the year attributed to:			
Owners of parent		2,049	1,906
Non-controlling interest		-	-
<i>Earnings per share</i>			
Basic & diluted earnings per share	6	\$0.05	\$0.05

The above statements should be read in conjunction with the notes to and forming part of the financial statements

G3 GROUP LIMITED AND SUBSIDIARIES

Consolidated Statement of Changes in Equity For the Year Ended 31 March 2016

	Attributable to equity holders of the company					Non-controlling interest	Total equity
	Share capital	Financial instruments fair value adjustment reserve	Foreign currency translation reserve	Retained earnings	Total		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 April 2014	1	(57)	(27)	3,757	3,674	(65)	3,609
Total comprehensive income for the year							
Profit for the year	-	-	-	1,909	1,909	-	1,909
Total other comprehensive income for the year	-	-	(3)	-	(3)	-	(3)
- Fair value movement of available for sale financial assets	-	-	-	-	-	-	-
- Translation of foreign operations	-	-	(3)	-	(3)	-	(3)
Total comprehensive income for the year	-	-	(3)	1,909	1,905	1	1,906
Transactions with owners of the company in their capacity as owners							
Shareholder Loans capitalised	7	5,400	-	-	5,400	-	5,400
Share Capital paid during the year	7	-	-	-	-	-	-
Business amalgamation	14	-	-	201	201	-	201
Acquisition of non-controlling interests	14	-	57	(1,299)	(1,242)	65	(1,177)
Dividends Paid	7	-	-	-	-	-	-
Total transactions with owners of the company	5,400	57	-	(1,097)	4,359	65	4,424
Balance at 31 March 2015	5,401	-	(30)	4,568	9,939	-	9,939

The above statements should be read in conjunction with the notes to and forming part of the financial statements

G3 GROUP LIMITED AND SUBSIDIARIES

Consolidated Statement of Changes in Equity (continued)

For the Year Ended 31 March 2016

		Share capital	Share based payments reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 April 2015		5,401	-	(30)	4,568	9,939	-	9,939
Total comprehensive income for the year								
Profit for the year		-	-	-	2,142	2,142	-	2,142
Total other comprehensive income/(loss) for the year		-	-	(93)	-	(93)	-	(93)
- Translation of foreign operations		-	-	(93)	-	(93)	-	(93)
<i>Total comprehensive income for the year</i>		-	-	(93)	2,142	2,049	-	2,049
Transactions with owners of the company in their capacity as owners								
Share based payments		-	345	-	-	345	-	345
Share Capital issued during the year	7	632	-	-	-	632	-	632
Dividends Paid	7	-	-	-	(430)	(430)	-	(430)
<i>Total transactions with owners of the company</i>		632	345	-	(430)	547	-	547
Balance at 31 March 2016		6,033	345	(123)	6,280	12,535	-	12,535

The above statements should be read in conjunction with the notes to and forming part of the financial statements

G3 GROUP LIMITED AND SUBSIDIARIES

Consolidated Statement of Financial Position

As at 31 March 2016

	Note	2016 \$'000	2015 \$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,452	311
Intangible assets and goodwill	12	22,643	19,514
Equity-accounted investees		-	17
<i>Total non-current assets</i>		24,095	19,843
Current assets			
Inventories	8	1,747	1,709
Receivables and prepayments	9	6,309	5,529
Cash and cash equivalents	10	1,089	815
<i>Total current assets</i>		9,145	8,053
Total assets		33,240	27,896
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to owners of the parent			
Share capital	7	6,033	5,401
Other reserves		222	(30)
Retained earnings		6,280	4,569
<i>Parent's total equity</i>		12,535	9,939
Total equity		12,535	9,939
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	17	9,095	2,650
Other payables	15	277	-
Deferred tax liability	5	929	622
<i>Total non-current liabilities</i>		10,301	3,272
Current liabilities			
Trade and other payables	15	7,434	7,649
Taxation payable	5	674	327
Employee benefits	16	415	211
Interest-bearing loans and borrowings	17	1,881	6,498
<i>Total current liabilities</i>		10,404	14,685
Total liabilities		20,705	17,957
Total equity and liabilities		33,240	27,896

The above statements should be read in conjunction with the notes to and forming part of the financial statements

G3 GROUP LIMITED AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the Year Ended 31 March 2016

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Cash receipts from customers		42,834	40,280
Cash paid to suppliers and employees		(39,845)	(36,063)
Income taxes paid		(556)	(852)
Net cash inflow from operating activities	21	<u>2,433</u>	<u>3,365</u>
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	14	(2,905)	(725)
Payment of contingent purchase consideration		-	(63)
Acquisition of non-controlling interest		-	(602)
Purchase of property, plant and equipment		(161)	(42)
Proceeds from sale of property, plant and equipment		11	2
Purchase of other intangibles		(11)	(13)
Advances paid		-	236
Net cash outflow from investing activities		<u>(3,066)</u>	<u>(1,208)</u>
Cash flows from financing activities			
Proceeds from borrowings		3,085	2,300
Proceeds from issue of shares		100	-
Repayment of borrowings - bank		(1,268)	(4,800)
Repayment of borrowings - shareholders		(148)	(757)
Dividends paid to company shareholders		(430)	-
Interest paid		(473)	(531)
Interest received		48	7
Net cash outflow from financing activities		<u>914</u>	<u>(3,781)</u>
Net (decrease)/increase in cash and cash equivalents		281	(1,622)
Effect of exchange rate fluctuations on cash held		(7)	(18)
Cash and cash equivalents at beginning of year		815	2,455
Cash and cash equivalents at end of year	10	<u>1,089</u>	<u>815</u>

The above statements should be read in conjunction with the notes to and forming part of the financial statements

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Reporting Entity

Financial Statements for G3 Group Limited, the “Parent” and its subsidiaries, together referred to as the “Group” and the Group’s interests in associates are presented. All entities within the Group, except for Universal Mail United Kingdom Limited and the entities associated with the investment in the Formfile Records Management Group Unit Trust (the “Formfile entities”), are companies incorporated and domiciled in New Zealand, registered under the Companies Act 1993. Universal Mail United Kingdom Limited is a company incorporated and domiciled in the United Kingdom. The Formfile entities are incorporated in Australia. These consolidated financial statements of the Group have been prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 2013. The Group is designated as a profit-oriented entity for financial reporting purposes. The Parent is an FMC reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

The Group is primarily involved in providing postal services in New Zealand, tourism collateral in the United Kingdom and document management services in New Zealand and Australia.

These financial statements were authorised for issue by the Board of Directors on 30 May 2016.

Basis of Preparation

The financial statements have been prepared in accordance with Tier 1 for profit entities and complies with New Zealand Generally Accepted Accounting Practice (“NZ GAAP”). They comply with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), New Zealand Equivalents to International Financial Reporting Standards (“NZ IFRS”) and other applicable Financial Reporting Standards as appropriate to profit-orientated entities.

The going concern assumption is applied and is supported by current and forecast cashflows from operations.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year. No new standards and amendments to standards were applied during the current reporting period.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

Basis of consolidation

(i) *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The Group measures goodwill at the acquisition date as:

- The fair value of consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) *Acquisition of non-controlling interests*

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners directly in equity and therefore no goodwill (or bargain purchase gains) is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

(iv) *Interests in equity-accounted investees*

The Group's interests in equity-accounted investees comprises its interest in associates. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost which includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment, including any long-term investments that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

Basis of Measurement

The financial statements are prepared on the historical cost basis except for the following assets and liabilities are stated at their fair value:

- Non-derivative financial instruments designated at fair value through profit or loss
- Contingent consideration payable

Presentation Currency

The financial statements are presented in New Zealand dollars, rounded to the nearest thousand dollars (unless otherwise stated) which is the functional currency of the Parent and its New Zealand subsidiaries. The functional currency of the Parent's UK subsidiary, is the Pound sterling. The functional currency of the Formfile entities is the Australian dollar.

Management Judgements and Estimates

The preparation of the financial statements in conformity with NZ IFRS 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. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements

Revenue recognition

The Group recognises deferred revenue on the statement of financial position relating to stamps purchased by customers but not used as at reporting date. The valuation of this balance is based on historical information concerning redemption rates and estimated time to complete the transaction. The results are reviewed by management in order to estimate the deferral.

Impairment assessment

The carrying values of goodwill are assessed at least annually to ensure that they are not impaired. This assessment requires the directors to estimate future cash flows to be generated by cash generating units to which goodwill has been allocated. Estimating cash flows entails making judgements including the expected rate of growth in revenues and margin, expenses and market shares to be achieved, and an appropriate discount rate to apply to the cash flows. These judgements are further set out in Note 12 to the financial statements.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) *Property, plant and equipment*

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when the cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense when incurred.

Depreciation

Depreciation is charged on a straight-line basis at rates that will allocate the cost of items of property, plant and equipment, less any estimated residual values, over their estimated useful life.

Current estimated useful lives of the major classes of property, plant and equipment are as follows:

•	Plant, Machinery and Equipment	3-30 years
•	Office Furniture and Equipment	1-14 years
•	Motor Vehicles	4-5 years

The depreciation method, rate and residual value of assets are reassessed annually.

Disposals

Gains and losses on disposals are determined by comparing proceeds with carrying amount of the assets. Gains and losses on disposals are included in profit or loss.

b) *Intangible assets and goodwill*

Intangible assets other than goodwill are recorded at cost less any accumulated amortisation and accumulated impairment losses. The cost of identifiable intangible assets acquired in a business combination is their fair value at date of acquisition. Intangible assets with finite useful lives are amortised on a straight-line basis over the estimated useful life of the asset, with any amortisation charge being recognised in profit or loss. Useful lives are reviewed annually and adjusted, if appropriate. Assets with indefinite useful lives are not amortised, but are tested at least annually for impairment. Realised gains and losses arising from disposal of intangible assets are recognised in profit or loss in the period in which the transaction occurs.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

Current estimated useful lives are:

Trademarks	10 years
Brands	10 years
Resellers agreement	10 years
Customer relationships	5-10 years

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset. All other expenditure is expensed as incurred.

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing and is tested annually for impairment.

c) Financial Instruments

Financial instruments are recognised in the statement of financial position initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents (including bank overdrafts), loans and borrowings and trade and other payables.

Trade and other receivables

Trade and other receivables are measured at amortised cost, using the effective interest method, less impairment losses. Trade receivables of a short-term nature are not discounted.

An allowance 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment allowance account, and the amount of the loss is recognised in profit or loss within 'other expenses'. When a trade receivable is uncollectible, it is written off against the impairment allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in profit or loss.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in profit or loss.

Derivative instruments comprise forward contracts.

Fair value estimation

The fair value of financial instruments must be estimated for recognition and measurement or for disclosure purposes.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) price in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques using inputs which have a significant effect on the recorded fair value and which are not based on observable market data.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

d) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

e) Impairment

Financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. The remaining financial assets are assessed collectively in groups that share similar risk characteristics.

All impairment losses are recognised in profit or loss and reflected in an allowance account against receivables.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Receivables with a short duration are not discounted. For trade receivables, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default in payments are considered indicators that the receivable is impaired.

When the receivable is uncollectible, it is written off against the allowance account for receivables.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available for sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available for sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

Non-financial assets

The carrying amounts of the Group's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated annually and whenever there is an indication of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

The estimated recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

A cash-generating unit is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of the other assets or groups of assets.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. Other impairment losses are reversed when there is a change in the estimates used to determine the recoverable amount and there is an indication that the impairment loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. All other impairment losses are reversed through profit or loss.

f) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based at historical cost are translated using the exchange rate at the date of the transaction.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Zealand Dollars at exchange rates at the reporting date. The income and expenses of foreign operations, are translated to New Zealand Dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve in equity.

g) 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 on issue during the period.

h) Share Capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

i) Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled on an undiscounted basis.

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

Share based payment transactions

The grant date fair value of equity settled share based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

j) **Provisions**

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

k) **Revenue**

Revenue from the sale of goods and services is measured at the fair value of the consideration received or receivable, net of returns, Goods and Services Tax, volume rebates and trade discounts. Revenue is recognised as follows:

(i) **Goods sold**

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. Transfer of the risks and rewards of ownership generally occur when the goods leave the warehouse.

Revenue is deferred in the statement of financial position to the extent that stamps purchased by customers have not been used at reporting date.

(ii) **Services**

Revenue from services is recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction. The stage of completion is assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) **Rental income**

Rental income from subleased property is recognised as other income.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

l) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- Temporary differences arising on the initial recognition of goodwill; and
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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 tax benefit will be realised.

m) Goods and services tax

With the exception of trade payables and trade receivables, all items are stated exclusive of goods and services tax.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

n) Leases

The Group as lessee

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. Lease incentives received are recognised in profit or loss in a straight-line basis over the lease term as an integral part of the total lease expense.

The Group as lessor

Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

o) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and is recognised as it accrues in profit or loss, using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether the foreign currency movements are in a net gain or net loss position.

p) Dividends

Accrual is made for the amount of any dividend declared on or before the end of the financial year but not distributed at reporting date.

Dividend distribution owing to the Group shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

q) Standards or interpretations issued but not yet effective

Certain new standards, amendments and interpretations of existing standards have been published that are mandatory for later periods and which the Group has not early adopted. These will be applied by the Group in the mandatory periods listed below. The key items applicable to the Group are:

NZ IFRS 9: Financial Instruments (effective from annual periods beginning on or after 1 January 2018)

This standard addresses the classification, measurement and recognition of financial assets and liabilities. It replaces the guidance in NZ IAS 39 Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments. It retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets; amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity are required to be measured at fair value

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

through profit or loss with the irrecoverable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one actually used for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39.

The Group intends to apply this standard in the 2019 reporting period and is yet to assess its full impact.

NZ IFRS 15: Revenue from contracts with customers (effective from annual periods beginning on or after 1 January 2018)

This standard addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The Group intends to apply this standard in the 2019 reporting period and is yet to assess its full impact.

NZ IFRS 16: Leases (effective for annual periods beginning on or after 1 January 2019)

This standard addresses the classification, measurement and recognition of lease assets and liabilities. In particular, this standard eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, NZ IFRS 16 introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. The standard includes optional lessee exemptions for short-term leases and small ticket leases.

The Group intends to apply this standard in the 2020 reporting period and is yet to assess its full impact.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

1. REVENUE

	2016 \$'000	2015 \$'000
Operating revenue		
Sales of mail products	42,329	38,899
Facilities management income	1,616	1,628
	<u>43,945</u>	<u>40,527</u>

2. EXPENDITURE

	Note	2016 \$'000	2015 \$'000
Finished goods and consumables purchased		32,592	31,747
Change in inventories of finished goods and consumables	8	(96)	26
Facility management costs		1,050	1,032
Amortisation of brands/trademarks	12	350	84
Depreciation	11	118	72
Share based payments to directors and staff		345	
Salaries and wages (includes directors remuneration)		3,350	2,024
Superannuation - defined contribution plans		77	30
Property operating lease and rental costs		361	224
Other premises expenses		149	60
Amounts paid to auditors:			
Statutory audits		75	144
Other services - Due Diligence related services		70	-
Other expenses		2,015	1,610
		<u>40,456</u>	<u>37,053</u>

3. NET FINANCE COSTS

	Note	2016 \$'000	2015 \$'000
Recognised in profit or loss			
Finance income			
Interest income from cash and deposits		13	36
Other interest income		6	6
		<u>19</u>	<u>42</u>
Finance expenses			
Interest expense on long-term debt:			
- Bank funding		(526)	(498)
- Shareholder loans	19	-	(483)
Foreign exchange (loss)/gain		19	(15)
		<u>(507)</u>	<u>(996)</u>
Net finance costs		<u>(488)</u>	<u>(953)</u>

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

4. SEGMENT INFORMATION

Basis of segmentation

The Group's operating segments have primarily been determined with reference to differences in primary markets and reflect the structure and internal reporting used by the Board, as the major operating decision maker, and to assist strategic decision-making and allocation of resources.

Operating segments have been aggregated for reporting purposes where the following criteria have been met:

- (1) aggregation is consistent with the core principle of NZ IFRS 8 *Operating Segments*
- (2) segments have similar economic characteristics
- (3) segments are similar in each of the following respects:
 - a. nature of the products and services
 - b. nature of production process
 - c. type or class of customer for their products and services
 - d. methods used to distribution their products or provide their services
 - e. nature of the regulatory environment

The Group's reportable segments are:

Mail NZ	-	Provision of tailored postal services to New Zealand businesses
Tourism UK	-	Provision of tourism collateral for retail purposes in United Kingdom
Documents NZ	-	Provision of document management services in New Zealand
Documents AU	-	Provision of document management services in Australia

The Group has no individual customers that each represent more than 10% of external sales revenue.

The Group evaluates segmental performance on the basis of profit and loss from operations calculated in accordance with IFRS but excluding non-recurring losses, such as goodwill impairment.

Inter-segment sales are priced along the same lines as sales to external customers.

Segment assets exclude deferred tax assets and assets primarily for corporate purposes. Segment liabilities exclude deferred tax liabilities and defined benefit liabilities. Loans and borrowings are not allocated directly to the segments as the Board assesses this separately on group funding requirements.

	New Zealand		United Kingdom		Australia	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
External revenue from operations	37,429	35,078	5,807	5,449	709	-
Non-current assets	6,856	7,047	12,774	12,778	4,465	-

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

4. SEGMENT INFORMATION (continued)

Revenues are attributed to individual countries based on the country of residence of the entity earning the revenue.

2016	Mail NZ \$'000	Mail UK \$'000	Documents NZ \$'000	Documents Australia \$'000	Total \$'000
Total revenue from external customers	33,788	5,807	3,641	709	43,945
Depreciation	82	5	8	23	118
Amortisation	88	-	207	55	350
Segment profit	1,918	2,493	778	26	5,215
Net corporate expenditure					(1,724)
Finance expense					(507)
Finance income					19
Other					16
Group profit before tax					3,019

2015	Mail NZ \$'000	Mail UK \$'000	Documents NZ \$'000	Documents Australia \$'000	Total \$'000
Total revenue from external customers	35,078	5,449	-	-	40,527
Depreciation	67	5	-	-	72
Amortisation	84	-	-	-	84
Segment profit	1,865	1,972	-	-	3,837
Net corporate expenditure					(280)
Finance expense					(996)
Finance income					42
Other					(6)
Group profit before tax					2,597

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

4. SEGMENT INFORMATION (continued)

2016	Mail NZ \$'000	Mail UK \$'000	Documents NZ \$'000	Documents Australia \$'000	Total \$'000
Reportable segment assets	6,836	1,212	2,703	2,951	13,702
Goodwill	1,969	12,753	2,330	2,119	19,171
Other non-current asset					-
Other corporate assets					367
Total group assets					33,240
Reportable segment liabilities	6,286	460	500	873	8,119
Deferred tax liability					929
Employee benefits					415
Loans and borrowings					10,976
Other corporate liabilities					266
Total group liabilities					20,705

2015	Mail NZ \$'000	Mail UK \$'000	Documents NZ \$'000	Documents Australia \$'000	Total \$'000
Reportable segment assets	6,080	1,196	1,104	-	8,380
Goodwill	1,969	12,753	2,277	-	16,999
Deferred tax asset					104
Other non-current asset					17
Other corporate assets					2,499
Total group assets					27,999
Reportable segment liabilities	6,219	516	798	-	7,533
Deferred tax liability					725
Employee benefits					211
Loans and borrowings					9,148
Other corporate liabilities					443
Total group liabilities					18,060

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

5. INCOME TAX

The reasons for the difference between the actual tax charge for the year and the standard rate of company tax in New Zealand applied to profits for the year are as follows:

	2016 \$'000	2015 \$'000
Profit for the year	2,142	1,909
Income tax expense	877	688
Profit before income taxes	3,019	2,597
Expected tax charge based on the standard rate of New Zealand company tax at the domestic rate of 28%	845	727
Non-deductible expenditure	231	99
Foreign tax rate difference	(199)	(138)
Other	-	-
Total tax expense	877	688
<i>Comprising:</i>		
Current tax		
- In respect of current year	904	706
Deferred tax		
- In respect of current year	(27)	(18)
	877	688

The New Zealand tax rate for the year ended 31 March 2016 is 28% (2015: 28%).
The United Kingdom tax rate for the year ended 31 March 2016 is 20% (2015: 21%).
The Australian tax rate for the year ended 31 March 2016 is 30% (2015: N/A).

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

5. INCOME TAX (continued)

	Note	2016 \$'000	2015 \$'000
Income tax payable			
Taxation payable - opening balance		327	378
Income tax charge for the year		904	706
Acquired on amalgamation	14	-	95
Income tax paid		(556)	(852)
Taxation payable - closing balance		675	327
Deferred tax asset/(liability)			
Balance at the beginning of the year		(621)	(123)
Arising from business acquisition	14	(341)	(516)
Current year movement		27	18
Other adjustments		6	-
Deferred tax asset/(liability)		(929)	(621)
Made up of:			
Deferred tax liability		(1,095)	(725)
Deferred tax asset		166	104
Net balance as per above		(929)	(621)
Deferred tax assets/ (liabilities) are attributable to the following:			
Property, plant and equipment		(3)	(3)
Intangible assets		(1,092)	(724)
Employee benefits		76	22
Deferred Revenue		66	60
Accruals		24	24
		(929)	(621)

There are no significant unrecognised income tax losses or temporary differences carried forward.

	2016 \$'000	2015 \$'000
Imputation credits		
Imputation credits at 31 March	635	731

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

6. EARNINGS PER SHARE

		2016	2015
	Note	\$'000	\$'000
Net profit after tax		2,142	\$1,909
Issued ordinary shares	7	54,506	46,950
Basic earnings per share		\$0.045	\$0.048
Diluted earnings per share		\$0.041	\$0.048
Net tangible assets per share		(\$0.19)	(\$0.23)

Basic and Diluted Earnings per Share

The calculation of basic and diluted earnings per share at 31 March 2016 was based on the profit attributable to owners of the parent of \$2.14 million (2015: \$1.91 million), and a weighted average number of ordinary shares outstanding of 47,140,199 (2015: 39,769,726), calculated as follows:

	2016	2015
	Number of shares	Number of shares
Balance brought forward	46,950,000	1,500,000
Effect of share split	-	38,250,000
Effect of shares issued 31 March 2015		19,726
Effect of shares issued 5 October 2015	60,959	-
Effect of shares issued for a business combination	129,240	-
Weighted average number of shares at 31 March 2016	47,140,199	39,769,726

The share options are treated as non-dilutive as they were determined to be “out of the money” as at the balance date.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

7. EQUITY

Share Capital

	2016	2015	2016	2015
	Number of shares	Number of shares	\$'000	\$'000
Ordinary shares				
Balance brought forward	46,950,000	1,500,000	5,401	1
Effect of share split	-	38,250,000	-	-
Issue of shares (net)	7,549,395	7,200,000	632	5,400
	<u>54,499,395</u>	<u>46,950,000</u>	<u>6,033</u>	<u>5,401</u>

At 31 March 2016, share capital comprised 54,499,395 authorised and issued ordinary shares (2015: 46,950,000). Other than the shares issued under the Group's Employee Share Ownership Plan (ESOP) all issued shares are fully paid and have no par value.

All ordinary shares rank equally with regard to the company's residual assets. Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Issue of Shares

On 16 June 2015 6,933,327 shares were issued for the purposes of the Group's ESOP. Of these 173,333 have been forfeited on termination of the relevant employee reducing the number of shares on issue.

On 5 October 2015 125,000 shares were issued to First NZ Capital for cash.

On 21 January 2016 664,401 shares were issued to the vendors of the Formfile Records Management Unit Trust.

Non-controlling interest

	2016	2015
	\$'000	\$'000
Balance brought forward	-	(65)
Acquisition of full control	-	65
	<u>-</u>	<u>-</u>

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

8. INVENTORIES

	2016 \$'000	2015 \$'000
Finished goods	1,747	1,709

In 2016, the write-down of inventories to net realisable value amounted to \$Nil (2015: \$2,000).

Inventory is secured by the ANZ Bank under a registered first ranking general security agreement over all the present and future assets and undertakings of all group entities (Note 17).

9. RECEIVABLES AND PREPAYMENTS

	Note	2016 \$'000	2015 \$'000
Trade receivables		6,168	4,961
Non trade receivables		38	352
Interest receivable		-	36
Prepayments		82	180
Receivables from related parties	19	21	-
		<u>6,309</u>	<u>5,529</u>

	2016 \$'000	2015 \$'000
Current	5,021	4,568
0-30 days	931	526
31 - 60 days	117	90
61 - 90 days	61	92
91-120 days	12	43
greater than 120 days	85	30
	<u>6,227</u>	<u>5,349</u>

The standard terms of trade is payment by the 20th of the following month. The Group reserves the right to charge interest at the directors' discretion for late payment.

10. CASH AND CASH EQUIVALENTS

	2016 \$'000	2015 \$'000
Bank balances	1,089	815
Total cash and cash equivalents	<u>1,089</u>	<u>815</u>

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

Bank balances earn interest at the bank's bill rate. Call deposits mature within one month and earn interest at 2.35% p.a (2015: 2.9% p.a).

11. PROPERTY, PLANT & EQUIPMENT

	Note	Plant and machinery \$'000	Motor vehicles \$'000	Office furniture & equipment \$'000	Total \$'000
Balance at 31 March 2016					
Cost at 1 April 2015		162	24	632	818
Additions		126	-	34	160
Foreign Currency Translation Reserve		35	5	3	43
Acquisition through business combinations	14	879	110	79	1,068
Disposals		-	(10)	-	(10)
Accumulated depreciation		(105)	(32)	(490)	(627)
Carrying value		1,097	97	258	1,452
Current year depreciation	2	34	10	74	118
Balance at 31 March 2015					
Cost at 1 April 2014		142	16	585	743
Additions		4	15	23	42
Acquired through business combinations		16	-	25	41
Disposals		-	(6)	-	(6)
Accumulated depreciation		(71)	(22)	(416)	(509)
Carrying value		91	3	217	311
Current year depreciation	2	25	14	33	72

Property, plant and equipment is secured by the ANZ Bank under a registered first ranking general security agreement over all the present future assets and undertakings of all group entities (Note 17).

There are no contractual commitments for the acquisition of property, plant and equipment at 31 March 2016 (31 March 2015:\$Nil).

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

12. INTANGIBLE ASSETS AND GOODWILL

	Note	Goodwill \$'000	Other intangibles \$'000	Total \$'000
Balance at 31 March 2016				
Cost at 1 April 2015		18,792	2,672	21,464
Additions		-	11	11
Foreign Currency Translation Reserve		92	56	148
Acquisition and adjustment through business combinations	14	2,027	1,240	3,267
Change in Fair Value of net assets acquired		53	-	53
Accumulated amortisation and impairment losses		(1,793)	(507)	(2,300)
Carrying value		19,171	3,472	22,643
Current year amortisation	2	-	350	350
Balance at 31 March 2015				
Cost at 1 April 2014		16,515	811	17,326
Additions		-	13	13
Acquisition through business combinations		2,277	1,848	4,125
Accumulated amortisation and impairment losses		(1,793)	(157)	(1,950)
Carrying value		16,999	2,515	19,514
Current year amortisation	2	-	84	84

Other intangibles consist primarily of brand and customer relationships recognised on the acquisitions of Pete's Post, Fastway Post Limited, Formfile Records Management Group Unit Trust and G3 NZ Limited, including Filecorp NZ Limited. Other intangible assets are amortised over period from 5 to 10 years.

Goodwill impairment testing

Cash generating units are the smallest groups of assets for which separately identifiable cash in-flows can be attributed. Goodwill is allocated to the following cash generating units for the purpose of impairment testing.

	Note	2016 \$'000	2015 \$'000
New Zealand mail operations		1,969	1,969
United Kingdom postal operation		12,753	12,753
New Zealand document management services		2,330	2,277
Australian document management services		2,119	-
		19,171	16,999

Notes to the Consolidated Financial Statements

G3 GROUP LIMITED AND SUBSIDIARIES

For the Year Ended 31 March 2016

12. INTANGIBLE ASSETS AND GOODWILL (continued)

On an annual basis, the recoverable amount of goodwill is tested for impairment based on its value-in-use and was determined by discounting estimated future cash flows to be generated by the cash generating unit (CGU).

2016

United Kingdom tourism collateral operation

Goodwill of \$14.40 million which arose from the acquisition of UMUK Holdings Limited from the Group's ultimate controlling shareholders, has been allocated to the United Kingdom's tourism collateral operation CGU. The Goodwill was impaired by \$1.64 million as at 31 March 2012. There was no additional impairment as at 31 March 2013, 31 March 2014 or 31 March 2015. As at 31 March 2016 the Group performed an annual impairment test of goodwill using cash flow projections for the next five years, taking in consideration historic data and forecast economic conditions. The recoverable amount of the goodwill was determined based on the following significant assumptions:

- Revenue is projected to grow by 6% in the 2017 year, and thereafter 5-7% per annum from 2018 to 2021 (2015: Revenue projected to grow by 11% in the 2016 year, and thereafter 7-9% per annum from 2017 to 2020).
- Operating costs as a percentage of revenue are projected to be 17% in the 2017 year, then between 17% and 18% thereafter (2015: Operating cost as a percentage of revenue projected to be 19% in 2016 and between 17% and 19% thereafter).
- a post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and was 14.2% (2015: 14.6%).
- a long term growth rate of 2% was applied to the terminal value (2015: 2%).

Management believe that the key assumptions and estimates represent the most realistic assessment of future trends. Based on this assessment the recoverable amount of goodwill exceeds its carrying amount at the reporting date and management have concluded that no impairment is required. The results of impairment testing are particularly sensitive to the revenue growth assumption. An EBITDA and terminal growth rate of zero while keeping all other assumptions constant would have reduced the recoverable amount by \$4.05 million and resulted in an impairment of \$0.58 million.

New Zealand mail operations

Goodwill arising from the acquisition of Pete's Post and Fastway Post Limited of \$1.44 million and \$0.52 million, respectively, has been allocated to the New Zealand Mail Operation's CGU. There was no additional impairment as at 31 March 2013, 31 March 2014 or 31 March 2015. As at 31 March 2016 the Group performed an annual impairment test of goodwill using cash flow projections for the next five years, taking in consideration historic data and forecast economic conditions. The recoverable amount of the goodwill was determined based on the following significant assumptions:

- Revenue is projected to grow by 20% in the 2017 year between 1% and 2% for the following four years (2015: Revenue is projected to grow by 8% in the 2016 year, 6% in the 2017 year and an average of 3% for the following three years).
- Operating costs to increase on average by 1% per annum from the 2017 year onwards (2015: Operating costs to increase on average by 1.7% per annum from the 2016 year onwards).

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

G3 GROUP LIMITED AND SUBSIDIARIES

12. INTANGIBLE ASSETS AND GOODWILL (continued)

- a post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and was 16.1% (2015: 16.1%).
- a long term growth rate of 2% was applied to the terminal value (2015: 2%).

Management believe that the key assumptions and estimates represent the most realistic assessment of future trends. Based on this assessment the recoverable amount of goodwill exceeds its carrying amount at the reporting date and management have concluded that no impairment is required. The results of impairment testing are not considered to be particularly sensitive to changes in the key assumptions.

New Zealand document management operations

Goodwill arising from the acquisition of Filecorp NZ Limited (including Eureka Filing and Storage) of \$2.28 million has been allocated to the Filecorp NZ document management Operation's CGU. As at 31 March 2016 the Group performed an annual impairment test of goodwill using cash flow projections for the next five years, taking in consideration historic data and forecast economic conditions. The recoverable amount of the goodwill was determined based on the following significant assumptions:

- Revenue is projected to grow by 8% in the 2017 year then 5% per annum thereafter (2015: 5% per annum).
- Operating cost as a percentage of revenue is projected to be 27% over all periods (2015: 26% over all periods).
- A post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and was 16.1% (2015: 15.3%).
- a long term growth rate of 2% was applied to the terminal value.

Management believe that the key assumptions and estimates represent the most realistic assessment of future trends. Based on this assessment the recoverable amount of goodwill exceeds its carrying amount at the reporting date and management have concluded that no impairment is required. The results are not considered to be particularly sensitive to changes in the key assumptions.

Australian document management operations

Goodwill arising from the acquisition of Formfile Records Management Group Unit Trust (Formfile) has been provisionally assessed at \$2.11 million. This has been allocated to the Australian document management Operation's CGU. Because of its provisional nature and the short period from the acquisition of this CGU until 31 March 2016 the Group has not performed an impairment test of this goodwill. The value of the goodwill arising from the acquisition of Formfile will be finalised within one year from the date of acquisition and tested for impairment as at 31 March 2017. This goodwill represents expected synergies from combining operations of Formfile and the Group and intangible assets that do not qualify for separate recognition.

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

13. INVESTMENTS IN SUBSIDIARIES

G3 GROUP LIMITED AND SUBSIDIARIES

The principal subsidiaries of the G3 Group Limited, all of which have been included in these consolidated financial statements, are as follows:

Subsidiaries	Principal activity	Acquisition date	Proportion of ownership interest at		Non-controlling interests	
			2016	2015	2016	2015
UMUK Holdings Limited	Holding company	31 Mar 11	100%	100%	0%	0%
Kiwi Mail Limited	Non-active	8 Oct 08	100%	100%	0%	0%
Letter Box Channel Limited	Non-active	8 Oct 08	100%	100%	0%	0%
Mailboxes Limited	Non-active	23 Nov 04	0%	0%	0%	0%
Universal Mail New Zealand Limited	NZ Postal operator	25 Sep 03	100%	100%	0%	0%
Universal Mail United Kingdom Limited	UK Postal operator	31 Mar 11	100%	100%	0%	0%
New Zealand Mail Limited	NZ Postal operator	5 May 04	100%	100%	0%	0%
Send New Zealand Limited	Non-active	1 Apr 11	100%	100%	0%	0%
Fastway Post Limited	Postal products retailer	30 Sep 13	100%	100%	0%	0%
Filecorp NZ Limited	Document management NZ	31 Mar 15	100%	100%	0%	0%
G3 Formfile Investments Pty Ltd	Holding company	27 Nov 15	100%	0%	0%	-
G3 (Aust) Holdings Pty Ltd	Holding company	26 Nov 15	100%	0%	0%	-
Formfile Records Management Group Pty Ltd	Trustee services	1 Jan 16	100%	0%	0%	-
Formfile Records Management Group Unit Trust	Document management Australia	1 Jan 16	100%	0%	0%	-

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

14. BUSINESS COMBINATIONS

Formfile Records Management Group Unit Trust

The Group acquired Formfile Records Management Group Unit Trust and its related trustee (Formfile) effective as at 1 January 2016. The transaction completed on 20 January 2016.

Details of the fair value of identifiable assets and liabilities contributed to the Group by this acquisition included:

	Fair value \$NZ'000
Cash and cash equivalents	183
Receivables and prepayments	281
Inventories	131
Property, plant and equipment	1,068
Deferred Tax Liability	(372)
Deferred Tax Asset	31
Interest-bearing loans and borrowings	(32)
Trade and other payables	(139)
Employee Benefits	(117)
Trademarks, Website and Intellectual Property	126
Customer Relationships (Note 12)	1,114
Goodwill (Note 12)	2,027
Fair Value of Formfile Records Management Group	4,301

Fair value of consideration paid

	Fair value \$NZ'000
Cash	3,088
Shares in G3 Group Ltd issued to vendors	532
Deferred consideration	149
Contingent consideration	532
	4,301

Formfile's revenue of \$0.71 million and profit of \$0.04 million were included in the current year's consolidated statement of comprehensive income. If the Group had acquired Formfile on 1 April 2015 management estimates that consolidated revenue would have been \$2.1 million higher and consolidated profit before tax, \$0.179 million greater.

Contingent consideration relates to two separately assessed payments that are dependent upon achievement of a quarterly earnings target in any quarter over a three year period. Management have applied judgement and consider it likely the first payment will be triggered in 2016 and the second payment will be triggered in 2017. The contractual amount of the contingent consideration approximates its fair value.

Notes to the Consolidated Financial Statements

G3 GROUP LIMITED AND SUBSIDIARIES

For the Year Ended 31 March 2016

15. TRADE AND OTHER PAYABLES

	2016			2015		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
Trade payables	6,245	-	6,245	5,684	-	5,684
Other payables	8	-	8	881	-	881
Interest payable	8	-	8	42	-	42
Deferred consideration on business combination	155	-	155	-	-	-
Contingent consideration on business combination	277	277	554	-	-	-
Accruals	326	-	326	822	-	822
Goods and services tax payable	100	-	100	22	-	22
Deferred Income	315	-	315	198	-	198
	7,434	277	7,711	7,649	-	7,649

16. EMPLOYEE BENEFITS

	2016 \$'000	2015 \$'000
Current liability for:		
Bonus accrual	155	112
Annual leave	142	92
Long service leave	79	
Employer deductions	39	7
	415	211

Share option programme (equity-settled)

On 24 April 2015 the Group established a share option programme that entitled directors and key management personnel and staff to purchase shares in the Company. Under this programme, holders of vested options are entitled to purchase shares at \$0.75 per share. The key terms and conditions related to the grants under this programme are as follows:

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

16. EMPLOYEE BENEFITS (continued)

Grant date	Number of instruments in thousands	Vesting conditions	Contractual life of options
Options were granted to key management personnel and senior employees on 13 May 2015 (Issue Date)	6,933	1/3 rd vest on 13 May 2017, 1/3 rd vest on 13 May 2019 and 1/3 rd vest on 13 May 2021 subject to the holder continuing to be employed by the Group (Service Condition only).	Six years from the Issue Date for the options that vest on 13 May 2017 and eight years from the Issue date for the options that vest on 13 May 2021.

Measurement of fair value

The fair value of the employee share options has been measured using the Black-Scholes formula. The inputs used in measurement of the fair values at grant date of the equity-settled share based payment plan were as follows.

	2016
Fair value at grant date	\$1.410 million
Share price at grant date	\$0.75
Exercise price	\$0.75
Expected volatility (weighted-average)	33.5%
Expected life (weighted-average)	5.33 years
Expected dividends	2.5%
Risk-free rate	3.11%

The expected volatility in the measurement of fair value at grant date has been based on an evaluation of the historical volatility of a comparable listed company as a proxy for the Company's future volatility. The Company had no trading history as at valuation date as it was a private company.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

16. EMPLOYEE BENEFITS (continued)

Reconciliation of outstanding share options

The number and weighted-average exercise prices of share options under the share option programme were as follows:

	Number of options (in thousands of options)	Weighted-average exercise price - 2016
	2016	
Outstanding at 1 April 2015	0	0
Granted during the year	6,933	\$0.75
Forfeited during the year	(167)	\$0.75
Exercised during the year	0	N/a
Outstanding at 31 March 2016	6,766	\$0.75
Exercisable at 31 March 2016	Nil	N/a

17. INTEREST-BEARING LOANS AND BORROWINGS

	Note	2016 \$'000	2015 \$'000
Current			
Secured bank loans		1,865	6,350
Other secured loans		16	-
Loans and borrowings from shareholders	19	-	148
		1,881	6,498
Non-current			
Secured bank loans		9,087	2,650
Other secured loans		8	-
		9,095	2,650
Total interest-bearing loans and borrowings		10,976	9,148

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

17. INTEREST-BEARING LOANS AND BORROWINGS (continued)

In New Zealand Dollars	Nominal interest rate	Year of maturity	2016 \$'000 Face value/ carrying amount	2015 \$'000 Face value/ carrying amount
Secured bank loans	4.58% to 4.86%	2016 - 2017	10,952	9,000
Other secured loans	5.71% to 7.17%	2016 - 2018	24	-
Loans and borrowings from shareholders	9.7%	on demand	-	148
Total interest bearing liabilities			10,976	9,148

2016

The face values of loans and borrowings are not significantly different to their carrying amounts.

The bank loans are secured by the following:

- Cross guarantee and indemnity agreements between G3 Group Limited and both Filecorp NZ Limited and New Zealand Mail Limited.
- Guarantee and indemnity of all obligations of New Zealand Mail Limited and G3 Group Limited unlimited as to amount from Universal Mail United Kingdom Limited.
- Guarantee and indemnity of all obligations of Filecorp NZ Limited unlimited as to amount from G3 Group Limited.
- Guarantee and indemnity of all obligations of G3 Group Limited unlimited as to amount from G3 Formfile Investments Pty Limited, G3 (Aust) Holdings Pty Limited and Letter Box Channel Limited.
- Guarantee and indemnity of the obligations of G3 Group Limited by two of its directors restricted to an amount of \$4.0 million plus interest, costs and other amounts each.
- Registered first ranking general security over all present and future assets and undertakings (including goodwill) of all group entities.

The secured bank loans are subject to interest cover and leverage financial covenants. For reporting periods to 30 September 2016, the ratio of the Group's bank debt to the Group's EBITDA must not be greater than 2.60 to 1. For the reporting period from 1 October 2016 to 31 March 2017 the ratio of the Group's bank debt to the Group's EBITDA must not be greater than 2.35 to 1, for the reporting period from 1 April 2017 to 30 September 2017 the ratio of the Group's bank debt to the Group's EBITDA must not be greater than 2.05 to 1 and thereafter the ratio of the Group's bank debt to the Group's EBITDA must not be greater than 2.00 to 1. The ratio of the Group's EBITDA to Group Interest Costs must not be less than 3.00 to 1 for the previous 12 months. G3 Group Limited was compliant with its covenants as at 31 March 2016.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

18. OPERATING LEASES

	Note	2016 \$'000	2015 \$'000
Leases as lessee			
Non-cancellable operating lease rentals are payable as follows:			
Less than one year		248	302
Between one and five years		197	366
		<u>445</u>	<u>668</u>

The Group leases various properties under non-cancellable operating lease agreements. The leases reflect normal commercial arrangements with varying terms, escalation clauses and renewal rights.

During the year ended 31 March 2016, \$0.36 million was recognised as an expense in respect of operating leases (2015: \$0.22 million).

19. RELATED PARTIES

Identity of related parties

The Group has a related party relationship with its key management personnel. All members of the Group are considered to be related parties of the Parent (G3 Group Limited). This includes the subsidiaries identified in note 13.

Transactions with related parties

Transactions with related parties are to be either settled in cash, or other arrangements by the directors. However, the shareholders have the power to direct the interest rate on the shareholder loans at their discretion, which was 9.7% for 2016 (2015: 9.7%). None of these balances are secured. There has been no impairment of related party balances during the year (2015: \$Nil) and there have been no write-offs of related party balances during the year (2015: \$Nil).

	Note	2016 \$'000	2015 \$'000
Related party transactions			
Shareholders			
- Interest expense	3	-	483

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

19. RELATED PARTIES (continued)

	Note	2016 \$'000	2015 \$'000
Related party balances			
Associates			
- Investments		-	19
<i>Total balances for associates</i>		-	19
Shareholders			
- Loans payable	17	-	(148)
<i>Total balances for shareholders</i>		-	(148)
Directors			
- Advances receivable	9	21	-
<i>Total balances for directors</i>		21	-

Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly. Key management personnel are the Directors and Executive Team Members of the Group and Parent. Salaries and management fees were paid to directors in respect to their services rendered. These services were undertaken on normal commercial terms.

	2016 \$'000	2015 \$'000
Key management personnel		
- Short term employment benefits	867	537
- Share based payments	211	-
	<u>1,078</u>	<u>537</u>

Directors remuneration is included in the salaries and wages in Note 2.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

20. FINANCIAL INSTRUMENTS

As at 31 March 2016, the Group had the following classes of financial instruments:

2016		Fair Value					
	Note	Loans and receivables \$'000	Other financial liabilities \$'000	Designated at Fair Value \$'000	Total \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets not measured at fair value							
Trade and other receivables	9	6,227	-	-	6,227	6,227	-
Cash and cash equivalents	10	1,089	-	-	1,089	-	-
Financial liabilities not measured at fair value							
Trade and other payables	15	-	(7,018)	-	(7,018)	(7,018)	-
Interest bearing loans and borrowings	17	-	(10,976)	-	(10,976)	(10,976)	-
Financial liabilities measured at fair value							
Contingent consideration		-	-	(532)	(532)	-	(532)
		7,316	(17,994)	(532)	(11,210)	(11,767)	(532)
2015							
	Note	Loans and receivables \$'000	Other financial liabilities \$'000	Designated at Fair Value \$'000	Total \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets not measured at fair value							
Trade and other receivables	9	5,349	-	-	5,349	5,349	-
Cash and cash equivalents	10	815	-	-	815	-	-
Financial liabilities not measured at fair value							
Trade and other payables	15	-	(7,627)	-	(7,627)	(7,627)	-
Interest bearing loans and borrowings	17	-	(9,148)	-	(9,148)	(9,148)	-
		6,165	(16,775)	-	(10,610)	(11,426)	-

Risk management policies

The Group's exposure to risk arises directly from its operating, investing and financing activities. These activities involve the acceptance of credit, market (currency and interest rate), financing and operational risks. The management of risk is an essential element of the Group's strategy with emphasis placed on pro-active management to enhance shareholder value and minimise earnings volatility in individual financial years and multi-year periods.

The Board is responsible for policy setting and execution of the policies (with advice from Finance).

Financing risk

Financing risk is the risk of not being able to refinance debt obligations or other cash outflows when required, on terms that are no more unfavourable than those currently in place.

The main objectives of the management of financing risk is to ensure sufficient funding is available to meet the Group's requirements and to avoid liquidity crises, achieve competitive pricing on sources of funding and lines of credit, and diversify sources of funding and liquidity.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

20. FINANCIAL INSTRUMENTS (continued)

The Group manages financing risk through maintaining a portfolio of liquid assets, developing and maintaining appropriate funding diversification strategies, arranging and maintaining committed bank facilities, and reducing the amount of debt maturing in any given period.

The directors of the Group performed a detailed cashflow and profit forecast analysis and determined that the Group will be able to comply with financial covenants and will have sufficient liquidity to meet its debt obligations for a period of 12 months from the date of approving these consolidated financial statements.

Interest rate risk

Interest rate risk is defined as the risk of the Group's cost of funds changing as a result of changes in the interest rates paid on outstanding debt.

The main objective of management of interest rate risk is to minimise the volatility in the cost of debt. The Group does not enter into forward rate agreements or any interest rate hedges.

The Group has floating rate borrowings with a face value of \$10.95 million at 31 March 2016 (2015: \$9.00 million). All borrowings are used to fund ongoing activities. As at 31 March 2016, the weighted average interest rate on borrowings is 4.73% (2015: 5.94%). The group also has fixed rate borrowings from shareholders of \$Nil (2015: \$0.15 million). At 31 March 2016, the interest rate on these borrowings is Nil% (2015: 9.7%).

As at 31 March 2016 a 100 basis point increase/ (decrease) in interest rates would (decrease)/ increase profit or loss by (\$109,518)/ \$109,518 (2015: (\$91,477)/ \$91,477).

Currency risk

Currency risk is the risk of cash flow uncertainty that may arise from a movement in foreign exchange rates to which the Group may be exposed. In the case of the Group this is foreign exchange transaction risk and foreign exchange translation risk arising from normal trading activities. The foreign currencies which the Group primarily deals with are the Pound Sterling and the Australian Dollar.

The main objective of the management of currency risk is to manage the exposure to foreign currency risk. The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (primarily Pound Sterling and the Australian Dollar) with the cash generated from their own operations in that currency.

The Group does not have material exposure to foreign currency risk.

Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time. Counterparty credit exposures arise as a consequence of the Group entering into contractual arrangements that involve the future exchange of assets and/or services.

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2016

20. FINANCIAL INSTRUMENTS (continued)

The Group manages credit risk through formulation of specific policy benchmarks and parameters set by the Board, which must be complied with in all situations. Credit risk is monitored on an ongoing basis. The Group does not have any significant concentrations of credit risk.

No collateral is held as at 31 March 2016 (2015: nil).

The following table represents a worst case scenario of credit risk exposure to the Group. The exposures set out are based on net carrying amounts as reported in the statement of financial position.

	2016 \$'000	2015 \$'000
<i>Credit risk relating to recognised assets</i>		
Cash and cash equivalents	1,089	815
Trade and other receivables	6,227	5,349
<i>Total gross financial assets</i>	<u>7,316</u>	<u>6,165</u>
Allowance for impairment losses	(23)	-
<i>Total net financial assets</i>	<u>7,293</u>	<u>6,165</u>

As at 31 March 2016, 85% of the total maximum exposure is derived from trade and other receivables (2015: 87%). Management is confident in its ability to control and sustain minimal exposure of credit risk resulting from its financial assets.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities including expected interest payments:

Notes to the Consolidated Financial Statements

G3 GROUP LIMITED AND SUBSIDIARIES

For the Year Ended 31 March 2016

20. FINANCIAL INSTRUMENTS (continued)

	Up to 12 Months \$'000	Between 1 and 2 Years \$'000	Between 2 and 3 Years	Total \$'000
As at 31 March 2016				
Trade and other payables	7,018	-	-	7,018
Contingent purchase consideration	277	277	-	554
Secured bank loan and facility	2,342	9,262	-	11,604
Other secured loans	17	7	-	24
Total	9,654	9,546	-	19,200

	Up to 12 Months \$'000	Between 1 and 2 Years \$'000	More Than 2 Years	Total \$'000
As at 31 March 2015				
Trade and other payables	7,627	-	-	7,627
Contingent purchase consideration	-	-	-	-
Secured bank loan and facility	6,820	333	2,587	9,741
Loans and borrowings from shareholders	148	-	-	148
Total	14,595	333	-	17,516

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

21. RECONCILIATION OF PROFIT/(LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES TO UPDATE

		2016 \$'000	2015 \$'000
Cash flows from operating activities	Note		
Profit for the year		2,142	1,909
<i>Adjustments for:</i>			
Amortisation of brands/trademarks	12	350	84
Depreciation of property, plant and equipment	11	118	72
Share based payments to directors and staff		345	-
Finance income	3	(19)	(42)
Finance expense	3	507	996
Impairment of receivables		23	
Effect of movements in foreign exchange rates		(93)	-
Share of post-tax loss of equity accounted limited partnership		-	(6)
Loss (gain) on sale of property, plant and equipment			3
Income tax expense	5	877	688
		<u>4,250</u>	<u>3,704</u>
(Increase) / decrease in trade and other receivables		(556)	(195)
(Increase) / decrease in inventories		40	(26)
Increase / (decrease) in trade and other payables		(745)	735
Cash generated from operations		<u>2,989</u>	<u>4,218</u>
Income taxes paid	5	(556)	(852)
Net cash flows from operating activities		<u>2,433</u>	<u>3,365</u>

G3 GROUP LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Year Ended 31 March 2016

22. CAPITAL MANAGEMENT

The Group's capital includes share capital, reserves and retained earnings.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between its specific business operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business operations and activities is undertaken independently of those responsible for the operation.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

There have been no material changes in the Group's management of capital during the period.

The Group is subject to externally imposed capital requirements via bank covenants as disclosed in note 17: Interest-bearing loans and borrowings, and is restricted from the payment of dividends.

23. CAPITAL COMMITMENTS

There are no capital commitments as at 31 March 2016 (2015:\$Nil).

24. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 March 2016 (2015:\$Nil).

An unconditional bank guarantee still exists in 2016, being \$0.36 million issued on 7 February 2014 to cover three months' estimated charges from New Zealand Post.

25. EVENTS OCCURRING AFTER THE REPORTING DATE

On 1 April 2016, the Group acquired the assets and business of Rocket Mail. The acquisition of Rocket Mail is expected to add a strategic and complementary service to the Group's mail-related business as well as providing it with an additional market channel that includes the digital delivery of customer invoicing, marketing and reporting communications. The purchase price of the business was \$0.35 million. Due to the timing of the acquisition, the initial accounting for this business combination was incomplete at the time this annual report was authorised for issue and it was not practical to disclose fair values of net assets acquired.

G3 GROUP LIMITED AND SUBSIDIARIES

Statutory Information For the Year Ended 31 March 2016

PRINCIPAL ACTIVITIES

The Group provides document management products and services in New Zealand and in Australia, tourism collateral products in the United Kingdom and postal products and services in New Zealand.

DIRECTORS HOLDING OFFICE DURING THE YEAR

G3 Group Limited	Robert Campbell (from 1 April 2015) Evan Christian Steve Phillips (from 1 April 2015) Jason Butler Rob Alker (resigned 1 April 2015)
UMUK Holdings Limited	Mark Brightwell (from 24 February 2016) Leslie Harvey (from 24 February 2016) Evan Christian (resigned 29 February 2016) Jason Butler (resigned 29 February 2016)
Send Group Limited	Robin Alker (from 29 February 2016) Mark Brightwell (from 29 February 2016) Jason Butler (resigned 29 February 2016)
Letter Box Channel Limited	Robin Alker (from 14 January 2016) Mark Brightwell (from 14 January 2016) Jason Butler (resigned 15 January 2016)
Universal Mail United Kingdom Limited	Jason Butler (resigned 28 February 2016) Mark Brightwell (from 28 February 2016) Leslie Harvey (from 28 February 2016)
New Zealand Mail Limited	Robin Alker (from 18 November 2015) Mark Brightwell (from 18 November 2015) Evan Christian (resigned 30 November 2015) Jason Butler (resigned 30 November 2015)
Send New Zealand Limited	Robin Alker Mark Brightwell (from 18 November 2015)
Filecorp NZ Limited	Robin Alker (from 18 November 2015) Mark Brightwell Stephen Phillips (resigned 30 November 2015) Evan Christian (resigned 30 November 2015)
G3 Formfile Investments Pty Ltd	Mark Brightwell (from completion) Jane Storey (from completion)
G3 (Aust) Holdings Pty Ltd	Mark Brightwell (from completion) Jane Storey (from completion)
Formfile Records Management Group Pty Ltd	Mark Brightwell (from completion) Jane Storey (from completion)

G3 GROUP LIMITED AND SUBSIDIARIES

Statutory Information

For the Year Ended 31 March 2016 (cont'd)

20 LARGEST SHAREHOLDINGS

The 20 largest shareholdings as at 9 June 2016 are provided in the table below.

No.	Shareholder	No. of shares	% of shares
1	Christian Family Trust Limited	20,948,584	38.4%
2	JDB Trustee Services Limited & JBT Trustee Limited	20,565,250	37.7%
3	Mark Christopher Brightwell & Augustine Trustee Limited	2,424,167	4.4%
4	June Loretta Bebono	1,333,333	2.4%
5	Mark Christopher Brightwell	1,333,333	2.4%
6	Rob Campbell	1,333,333	2.4%
7	Robin Alker	1,333,333	2.4%
8	Paul John Christian	990,000	1.8%
9	David Butler	717,332	1.3%
10	David Ross Allan	666,666	1.2%
11	Dominic Antony Bish	666,666	1.2%
12	Mills Beach Estate Pty Ltd	664,401	1.2%
13	Steve Phillips	333,333	0.6%
14	FNZ Custodians Limited	218,000	0.4%
15	Diane Christian & Logan Christian	133,333	0.2%
16	Hai Su Wang	133,333	0.2%
17	Paul Forno	133,333	0.2%
18	Julian Edward Brown	100,000	0.2%
19	First NZ Capital Securities Limited	92,429	0.2%
20	James Stephen Godinet	43,750	0.1%

SPREAD OF HOLDINGS (AS AT 18 JUNE 2015)

The total number of ordinary shares on issue as at 9 June 2016 was 54,499,395. The company has only ordinary shares on issue. Details of the distribution of ordinary shares amongst shareholders as at 9 June 2016 are set out below:

Size of holdings	No. of shareholders	% of shareholders	No. of shares held	% of shares held
Less than 2,000	42	52.5%	45,081	0.1%
2,000 to 49,999	19	23.8%	334,155	0.6%
50,000 to 99,999	1	1.3%	92,429	0.2%
100,000 to 499,999	6	7.5%	1,051,332	1.9%
500,000 to 999,999	5	6.3%	3,705,065	6.8%
1,000,000 and over	7	8.8%	49,271,333	90.4%
TOTAL	80	100.0%	54,499,395	100.0%

G3 GROUP LIMITED AND SUBSIDIARIES

Statutory Information

For the Year Ended 31 March 2016 (cont'd)

DIRECTORS' SHAREHOLDINGS AND SHARE DEALINGS

Robert Campbell acquired 1,333,333 shares in the Company on 16 June 2015 under the Company's ESOP.

Evan Christian has an interest in 21,048,584 share in the Company via Evan Christian Family Trust Limited. This number includes 100,000 shares lent to the market maker as required by the NXT Market Rules.

Stephen Phillips acquired 333,333 shares in the Company on 16 June 2015 under the Company's ESOP.

Jason Butler has an interest in 20,665,250 shares in the Company via JBT Trustee Limited and JDB Trustee Services Limited who hold the shares jointly. This number includes 100,000 shares lent to the market maker as required by the NXT Market Rules.

As at the balance date of 31 March 2016, the directors' shareholding interests were:

Name of Director/ Senior Manager	Role within G3	Nature of Relevant Interest	Number of Shares / Percentage holding
Rob Campbell	Non-executive Director	Registered holder and beneficial owner of shares held in ESOP	1,333,333 / 2.4%
Evan Christian	Non-executive Director	Power to control shares held by associated family trust	21,048,584 / 38.6%
Jason Butler	Non-executive Director	Power to control shares held by associated family trust	20,665,250 / 37.9%
Steve Phillips	Non-executive Director	Registered holder and beneficial owner of shares held in ESOP	333,333 / 0.6%

G3 GROUP LIMITED AND SUBSIDIARIES

Statutory Information For the Year Ended 31 March 2016 (cont'd)

SUBSTANTIAL SECURITY HOLDERS

As at 9 June 2016, the following persons hold relevant interests in not less than 5% of the total number of ordinary shares on issue in G3:

Name of substantial shareholder	Nature of relevant interest	Number of Shares / % holding
Evan Christian	Power to control shares held or controlled by associated family trust	21,048,584 / 38.6%
Christian Family Trust Limited as trustee of the Evan Christian Family Trust	Registered holder	20,098,584 / 38.4%
Jason Butler	Power to control shares held or controlled by associated family trust	20,665,250 / 37.9%
JDB Trustee Services Limited & JBT Trustee Limited as trustees of the Jason Butler Trust	Registered holder	20,565,250 / 37.7%
Mark Brightwell	Power to control 2,424,167 shares held by associated family trust.	3,757,500 / 6.9%
	Registered holder and beneficial owner of 1,333,333 Shares held in ESOP	
Sub-total of substantial shareholders		45,471,334 / 83.4%
TOTAL SHARES ON ISSUE		54,499,395 / 100.0%

INTERESTS REGISTER

Directors have advised changes in their interests during the year ended 31 March 2016 of:

Evan Christian	Provided a guarantee of certain facilities provided by the ANZ Bank.
Jason Butler	Provided a guarantee of certain facilities provided by the ANZ Bank.
Robert Campbell	Subscribed for 1,333,333 shares in the Company. Recipient of \$1,000,000 loan facility provided by the Company to assist the director with the subscription for 1,333,333 Shares under the Group's ESOP.
Stephen Phillips	Subscribed for 333,333 shares in the Company. Recipient of \$250,000 loan facility provided by the Company to assist the director with the subscription for 333,333 Shares under the Group's ESOP.

G3 GROUP LIMITED AND SUBSIDIARIES

Statutory Information

For the Year Ended 31 March 2016 (cont'd)

REMUNERATION OF DIRECTORS

Robert Campbell	\$70,000
Evan Christian	40,000
Stephen Phillips	45,000
Jason Butler	40,000

Robert Campbell also received a benefit under the ESOP valued at \$68,519. Stephen Phillips also received a benefit under the ESOP valued at \$17,130.

Except where shown above, no other director of any subsidiary company within the Group receives directors fees or other benefits as a director.

No employee of the Group appointed as a director of any subsidiary company receives or retains any remuneration or other benefits, as a director. The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosed below (where applicable).

GOVERNANCE POLICIES

Until 18 June 2015, G3 Group Limited was a privately owned company. On 18 June 2015, G3 Group Limited adopted a Corporate Governance Code, Audit Finance and Risk Charter, Financial Products Trading Policy, Remuneration Nomination and Health and Safety Charter and these are available on the G3 Group Limited website at www.g3group.co.nz. G3 Group Limited plans to act in accordance with these policies.

REMUNERATION OF EMPLOYEES

\$100,001 - \$110,000	1
\$120,001 - \$130,000	1
\$130,001 - \$140,000	1
\$160,001 - \$170,000	1
\$190,001 - \$200,000	1
\$250,001 - \$260,000	1
\$360,001 - \$370,000	1
\$390,001 - \$400,000	1

DONATIONS

No donations were made by the Group in the year ended 31 March 2016.

INDEMNITY AND INSURANCE

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, the company has provided insurance for, and indemnity to Directors and employees of the Group and its subsidiaries for losses from actions undertaken in the course of their duties.

G3 GROUP LIMITED AND SUBSIDIARIES

Company Directory

Company Name	G3 Group Limited	
Nature of Business	Providers of document and data management services in New Zealand and Australia, and business mail services in New Zealand and the United Kingdom.	
Registered Office	Level 2 BDO House 116 Harris Road East Tamaki Auckland	
Directors	Robert Campbell (Chairman) Evan Christian Jason Butler Stephen Phillips	
Auditors	KPMG 18 Viaduct Harbour Avenue Auckland	
Bankers	ANZ Bank New Zealand Limited 23 Albert Street Auckland New Zealand	HSBC Bank 39 Tottenham Court Road London United Kingdom
Solicitors	Chapman Tripp 23 Albert Street Auckland New Zealand	