



Centre for Innovation
P O Box 56, Dunedin
New Zealand

Telephone: 03 479 5337

Fax: 03 479 8954

Email: info@blis.co.nz

Website: www.blis.co.nz

Operations Report and Financial Statements

For the six months to 30 September 2009.

BLIS TECHNOLOGIES LIMITED
RESULTS FOR ANNOUNCEMENT TO THE MARKET

Reporting Period: 6 months to 30 September 2009
Previous Reporting Period: 6 months to 30 September 2008

	Amount (000s)	Percentage Change
Revenue	1,078	Up 228%
NET SURPLUS/(DEFICIT) BEFORE TAX & FINANCE COSTS (INTEREST & PEF SHARE COSTS)	(11)	Deficit down 97%
Finance Costs	(6)	Down 50%
Amortisation of Convertible Preference share issue costs	(47)	Nil – 30/09/2008
Dividend on Convertible Preference Shares accrued	(116)	Nil- 30/09/2008
NET DEFICIT	(180)	Deficit down 56%
Interim Dividend- Ordinary shares	NIL	
Dividend- Convertible Preference Shares		
Record Date	06/11/2009	
Dividend Payment Date	13/11/2009	

Financial

The Company made a net deficit of \$11k before tax and finance costs. This is an improvement from the comparable prior period deficit of \$405k (September 2008). After allowing for finance costs (accrued dividend payments on Convertible Preference Shares, interest and amortisation of share issue costs), the deficit is \$180k (deficit of \$411k September 2008). The full year deficit in the previous financial year was \$488k.

No tax is payable and no dividend will be paid on ordinary shares.

The Company's net cash outflow from operating activities to 30 September 2009 was \$210K. This compares favourably with the previous period (net cash outflow \$272K).

Revenue for the six months, compared to the previous period increased 228% to \$1,078K and compares favourably with the revenue for the full year result (\$1,148K).

Trading revenues when compared to the previous period were up 320% to \$663K, due mainly to increased sales in the North American, Asian and NZ markets. International trading revenue amounted to 80% of all sales compared with 58% in the previous period, emphasising the rapid development of sales in this period. The Company estimates the impact of adverse movements in the US exchange rate in the last few months decreased revenue by \$100K against the original budget expectations.

US sales in the period were \$368K, with international revenue amounting to \$529K, compared to \$15K and \$91K, respectively in the corresponding period last year. The marked increase in USA sales revenue of \$353K was a result of business development in conjunction with the company's distributor, Frutarom Ltd. Frutarom USA, a subsidiary of Frutarom Ltd manages the distribution of BLIS ingredients on a global basis.

During the period the Company launched BLIS M18, with immediate sales to two customers in the US market with one of these having a period of exclusivity.

The slow start in the Irish market is a concern to the Company. Because of the significant impact of the financial crisis in that market and other market factors, the company anticipates only making slow progress in the coming months. It is reviewing the situation with the Whelehan Group. In stark contrast, NZ revenue was higher than in the previous period by 94% as a result of the marketing campaign by Pharmabroker NZ.

Revenue from contract development agreements in the period, primarily involving Nestle Nutrition, was down 79% (\$120K to \$25K) although this is expected to improve during the remainder of the financial year with the commencement of additional projects. BLIS has been awarded a market development grant from NZ Trade & Enterprise during the period, used primarily to support activity in the US market. The grant has an annual value of \$100K.

Other revenue at \$365K was primarily derived from an agreement concluded with a major global consumer products company. This agreement is subject to confidentiality and associated developments are expected to be ongoing over the next 18 months.

Capital

Ordinary shareholder funds currently stand at \$1,739k, compared to \$1,637k the previous year.

In May 2009, pursuant to the underwritten, renounceable rights issue, the Company raised \$3,000,000. Under the rights issue, shareholders were offered 1 Preference Share for every 45 existing ordinary shares held at an issue price of \$1.00 per Convertible Preference Share (CPS) on a fully renounceable basis. The Company received applications for 1,912,427 CPS. Edinburgh Equity Nominee Limited (Edinburgh) was allotted 1,087,573 CPS pursuant to the underwriting arrangements. Edinburgh holds an option for an additional 1,000,000 additional CPS exercisable within 12 months from 31 March 2009.

The CPS which are listed on NZX will convert into ordinary shares in the Company at the expiry of their 3 year term on specified conversion terms. Prior to conversion the CPS will pay a dividend of 10% per annum paid semi-annually. The first of these interest payments being 5 cents per CPS is to be made on 13 November, 2009.

The capital raised through issuance of the Convertible Preference Shares for accounting purposes is treated as a Long-term Liability rather than Owners Equity. The net amount of \$2,685k is considered by Directors to be a part of the Company's capital base.

Strategy

The Company is pleased to advise that the execution of the business strategy is proceeding well, especially in the USA and in Asia. There have been at least seven products containing the BLIS probiotics, released in the North American market and one product in Japan. It is anticipated that further products will soon be released in Japan and in other North Asian markets.

North America Business Strategy

- Dietary supplement manufacturers
- Consumers products manufacturers
- Food and beverage manufacturers

The business strategy for North America is to work through our distributor to promote BLIS K12 to the top 50 dietary supplement manufactures (companies with revenue over US\$40 million) as the major sales and marketing priority. To date all of these companies have been prospected and we are working through the sales cycle with a number of them.

As a second tier to the North American business strategy, the Company has been engaged in talks with consumer products companies that could potentially represent sales opportunities in the OTC (Over the Counter) pharmacy remedies and grocery, both in the North American and global markets. These discussions have been ongoing for some time and while they remain at an early stage, the company is pleased with the continuing progress and open dialogue.

Finally, the other element of the North American business strategy is related to food manufacturing and this is contingent upon a favourable regulatory outcome with the US Food and Drug Administration, which is likely to be reported in 2010. Since early 2008, BLIS Technologies has been in dialogue with food manufacturers to determine the level of interest in BLIS K12 as an ingredient in food and beverage. The company will increase its commitment to this market once the regulatory process is complete.

In general there is still plenty of opportunity in the successful execution of the North American business strategy as the company seeks to increase sales and achieve profitable operations. Success with the “early adopter” companies that have incorporated the BLIS K12 probiotic into their retail offerings, will continue to drive a number of other companies to BLIS K12, who traditionally take a “wait and see” approach to new ingredient innovations. In addition to this market momentum effect, there is the additional benefit from many of the “first to market” retail manufacturers who have made significant investments in consumer education and promotion which in turn builds brand awareness and loyalty.

BLIS Technologies can report that there are 5 North American companies (with revenues above US\$ 40 million per year) that have launched one or more products containing a BLIS probiotic ingredient with an additional 3 companies expected to do the same before the end of the financial year (31 March 2010).

A recent highlight for the Company is the sales of BLIS K12 BioGuard from Imagenetix in the USA. This is important because this led to the introduction of this product into giant US retailer, Costco Wholesale Corporation. Costco is the seventh largest retailer in the United States and the largest membership club store in the world. The plan for BLIS K12 BioGuard is to complete a 50 store sales trial in the Pacific Northwest of the US. Subject to a successful outcome, they will roll out the BLIS K12 BioGuard across all 403 US based stores in early 2010. This and similar developments with other companies through Frutarom USA are very encouraging to BLIS and are an important factor in the company soon achieving profitable operations.

Asia and Europe Business Strategy

- Asian markets
- European markets

In conjunction with Frutarom, the Company is also developing other business opportunities identified in Europe, Taiwan, Japan, Korea, South East Asia and Australia, which it anticipates will generate initial sales in the current financial year. BLIS Technologies provides technical market and operational support to Frutarom in these markets with respect to ingredient sales. The Company however retains responsibility for the management of finished retail product sales and further initiatives in this sector are being pursued. BLIS Technologies remains in close contact with its European research partner Nestle Nutritional and is focused on future commercial opportunities that may evolve from this relationship.

New Ingredient Strategy

- BLIS M18 for protection against tooth decay

BLIS M18 is targeted at anti-caries applications whereas BLIS K12 is primarily targeted at oral health and oral immune applications. The major US dietary supplements manufacturer, Nature's Plus, which was amongst the first companies in the United States to adopt the BLIS K12 probiotic into its product range, has now successfully launched its first BLIS M18 product called “Tooth Fairy”. With the BLIS M18 as the active ingredient, it has been specifically developed for the prevention of tooth decay. The “Tooth Fairy” product from Nature's Plus is targeted at the children's oral-care segment and was launched in the US to coincide with the start of the new school year in early September 2009. The Company expects to formally launch the BLIS M18 to the broader dietary supplements market early in 2010.

Regulatory issues

- Self Affirmed GRAS in the USA
- NHP application in Canada
- Europe

A key strategic issue for BLIS Technologies is managing the regulatory barriers within a given market. These regulatory requirements often become a barrier to market entry and then drain significant resources from the company, as the appropriate regulatory approvals are sought. This process can take from 4 -24 months depending on the market and levels of approvals required.

BLIS Technologies is well advanced with its most significant regulatory approval process undertaken to date. The process, which is called self-affirmed Generally Recognised as Safe (GRAS) application, is to be filed with the United States Food and Drug Administration and subject to approvals from the technical committee, the company anticipates the completion of this process during 2010. GRAS status is required to commence marketing developments in the food sector. Also in the North American market and through its distributor Frutarom, a Natural Health Products (NHP) Master file has been recently submitted in Canada.

The Company is evaluating its options with respect to regulatory approval in Europe but it is clear from recent market developments associated with rulings from the European Food Safety Authority that the regulatory requirements in this market have tightened and will likely be more demanding than earlier believed. The Company is taking guidance from a number of expert stakeholders with respect to development in the European market, including its distributor, Frutarom, its European customers and its regulatory consultant.

BLIS Technologies is also currently involved in regulatory submissions in China, Korea and other Asian markets.

Operations

BLIS continues to review its operational activities for BLIS K12 ingredient and the finished products. While the probiotics *S. salivarius* K12 S. and M18 continue to be produced to the highest quality standards in New Zealand, the Company is well advanced in evaluating options for increasing the production of these ingredient and finished products off-shore. This is an important strategic decision to ensure the Company has sufficient production capacity and it is essential for BLIS Technologies Ltd to have more than one supplier for BLIS K12 and BLIS M18. Options for production exist in Europe and in the USA.

Intellectual Property

The Company continues to establish a robust intellectual property portfolio and has undertaken a substantial amount of work to underpin its technology and scientific platform to support the commercial development of the Company. In the last 6 months the *Treatment of Malodor* patent has been granted in the United States, the *Antimicrobial patent (Micrococcus luteus Q24)* has been granted in Europe as has the Norwegian *Lantibiotic patent*.

The commercial focus of the Company has resulted in more extensive use of Trademark applications to strengthen its position in the market. Trademark applications have been filed in the United States and Japan and further applications will be filed.

Product Development

The Company has made considerable progress in several key areas of product development. These include improvements in the enumeration of BLIS K12 in gum formulations and continued studies on colonization and stability of the BLIS K12 and BLIS M18 in a range of end-user formats.

BLIS continues to focus its scientific resources on projects which technically assist customer's needs and requirements. This involves assisting potential customers with projects whose activities may include the regulatory process, laboratory testing, production and quality assurance. BLIS continues to recognise the importance of maintaining strong scientific links, which help differentiate its products in the market place.

The future product portfolio of BLIS is reliant on the pipeline of products that result from having a strategy which continues to foster the development of the science and also the innovative development of new products. BLIS Technologies Ltd has continued to publish articles this year with several more currently being submitted boosting the already impressive safety information.

OUTLOOK

The priority for the Company remains the attainment of profitability through a focus on the leverage of its intellectual property through the development of key international partnerships and the careful management of costs. We are extremely encouraged by the significant investments that third parties are making in development and marketing of products based on our proprietary ingredients.

REFERENCES

Tagg, J. 2009. Streptococcal Bacteriocin-Like Inhibitory Substances: Some Personal Insights into the Bacteriocin-Like Activities Produced by Streptococci Good and Bad. *Probiotics and Antimicrobial Proteins*.

Wescombe, P. A., N. C. Heng, J. P. Burton, C. N. Chilcott, and J. R. Tagg. 2009. Streptococcal bacteriocins and the case for *Streptococcus salivarius* as model oral probiotics. *Future Microbiol* 4:819-35.

Lee, H., D. Orlovich, J. Tagg, and P. Fawcett. 2009. Detection and Specific Enumeration of Multi-Strain Probiotics in the Lumen Contents and Mucus Layers of the Rat Intestine After Oral Administration. *Probiotics & Antimicrobial Proteins*.

BLIS TECHNOLOGIES LIMITED
INCOME STATEMENT
For the 6 Months Ended 30 September, 2009

	Notes	6 mths 30 Sep 09 (Unaudited) \$'000s	6 mths 30 Sep 08 (Unaudited) \$'000s	12 mths 31 Mar 09 (Audited) \$'000s
REVENUES				
Trading revenue		663	158	608
Interest Received		50	20	48
Other Income		365	151	492
		<u>1,078</u>	<u>329</u>	<u>1,148</u>
LESS				
Distribution expenses		34	8	9
Marketing expenses		15	2	61
Occupancy expenses		41	36	71
Operating expenses		699	521	1,171
Other expenses		300	167	312
		<u>1,089</u>	<u>734</u>	<u>1,624</u>
NET SURPLUS/(DEFICIT) BEFORE TAX & FINANCE COSTS		(11)	(405)	(476)
LESS:				
Finance costs		6	6	12
Amortisation of Convertible Preference Share issue costs	4	47	-	-
Dividend on Convertible Preference Shares accrued		116	-	-
		<u>169</u>	<u>6</u>	<u>12</u>
NET SURPLUS/(DEFICIT) BEFORE TAX		(180)	(411)	(488)
Taxation expense		-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>
NET SURPLUS/(DEFICIT) FOR THE PERIOD		<u>(180)</u>	<u>(411)</u>	<u>(488)</u>
Earnings/ (Loss) per Share:				
Basic (cents per share)		(0.1)	(0.3)	(0.4)
Diluted (cents per share)		(0.1)	(0.3)	(0.4)

Calculated on a weighted average basis of the number of shares on issue exclusive of Treasury stock.

BLIS TECHNOLOGIES LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the 6 Months Ended 30 September, 2009

	Notes	6 mths 30 Sep 09 (Unaudited) \$'000s	6 mths 30 Sep 08 (Unaudited) \$'000s	12 mths 31 Mar 09 (Audited) \$'000s
Net Surplus/(Deficit) for the Period		(180)	(411)	(488)
Other Comprehensive Income		-	-	-
TOTAL COMPREHENSIVE INCOME		<u>(180)</u>	<u>(411)</u>	<u>(488)</u>

STATEMENT OF CHANGES IN EQUITY
For the 6 months Ended 30 September, 2009

EQUITY AT BEGINNING OF THE PERIOD		1,919	1,923	1,923
Total Comprehensive Income for the Period		(180)	(411)	(488)
		<u>1,739</u>	<u>1,512</u>	<u>1,435</u>
Issue of ordinary shares	3	-	126	500
Share issue costs		-	-	(16)
EQUITY AT END OF PERIOD		<u>1,739</u>	<u>1,638</u>	<u>1,919</u>

BLIS TECHNOLOGIES LIMITED
BALANCE SHEET
As at 30 September, 2009

	Notes	6 mths 30 Sep 09 (Unaudited) \$'000s	6 mths 30 Sep 08 (Unaudited) \$'000s	12 mths 31 Mar 09 (Audited) \$'000s
CURRENT ASSETS				
Cash and short term deposits		2,610	302	676
Accounts receivable		455	83	254
Prepayments		17	12	189
Inventory		219	226	198
Taxation Receivable		-	1	1
		<u>3,301</u>	<u>624</u>	<u>1,318</u>
LESS CURRENT LIABILITIES				
Accounts Payable		553	207	517
Bank Overdraft		-	-	291
		<u>553</u>	<u>207</u>	<u>808</u>
WORKING CAPITAL		2,748	417	510
NON CURRENT ASSETS				
Property, plant and equipment		315	340	315
Intangible assets		1,361	881	1,094
		<u>1,676</u>	<u>1,221</u>	<u>1,409</u>
		<u>4,424</u>	<u>1,638</u>	<u>1,919</u>
NON CURRENT LIABILITIES				
Convertible Preference Shares	4	2,685	-	-
		<u>2,685</u>	<u>-</u>	<u>-</u>
OWNERS' EQUITY				
Share Capital (Ordinary)	3	26,033	25,675	26,033
Reserves		(24,294)	(24,037)	(24,114)
		<u>1,739</u>	<u>1,638</u>	<u>1,919</u>
TOTAL INVESTORS' INTERESTS		<u>4,424</u>	<u>1,638</u>	<u>1,919</u>

BLIS TECHNOLOGIES LIMITED
STATEMENT OF CASHFLOWS
For the 6 Months Ended 30 September, 2009

	Note	6 mths 30 Sep 09 (Unaudited) \$'000s	6 mths 30 Sep 08 (Unaudited) \$'000s	12 mths 31 Mar 09 (Audited) \$'000s
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from (applied to):				
Trading revenue & Other Income		807	382	989
Interest received		57	20	63
Interest Paid		-	-	(12)
Payments to suppliers and employees		(1,068)	(668)	(1,204)
Goods & Services Taxation		(6)	(6)	8
Net cash inflow (outflow) from operating activities	2	<u>(210)</u>	<u>(272)</u>	<u>(156)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from (applied to):				
Capitalised development costs		(319)	(345)	(549)
Capitalised patent costs		(20)	(42)	(69)
Purchase of Property, plant and equipment		(25)	(8)	(8)
Net cash inflow (outflow) from investing activities		<u>(364)</u>	<u>(395)</u>	<u>(626)</u>
CASH FLOWS FINANCING ACTIVITIES				
Cash was provided from (applied to):				
Issue of shares		-	125	500
Issue of Convertible Preference Shares		3,000	-	-
Share issue expenses		-	-	(16)
Convertible Preference Shares issue expenses		(201)	-	(161)
Net cash inflow (outflow) from financing activities		<u>2,799</u>	<u>125</u>	<u>323</u>
Net increase/(decrease) in cash held		<u>2,225</u>	<u>(542)</u>	<u>(459)</u>
Add cash and short term deposits at start of period		<u>385</u>	<u>844</u>	<u>844</u>
Balance at end of period		<u><u>2,610</u></u>	<u><u>302</u></u>	<u><u>385</u></u>
COMPRISED OF:				
Cash and short term deposits		2,610	302	676
Bank Overdraft		-	-	(291)
Total		<u><u>2,610</u></u>	<u><u>302</u></u>	<u><u>385</u></u>

Note that a loan facility provided by Edinburgh Equity Nominee Limited, a related party, was drawn down and repaid during the period. There is no net impact on financing cash flows.

BLIS TECHNOLOGIES LIMITED
NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS
For the 6 Months Ended 30 September, 2009

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

BLIS Technologies Limited (“BLIS or Company”) is a profit oriented entity, registered in New Zealand under the Companies Act 1993. The Company is an issuer for the purposes of the Financial Reporting Act 1993 and its annual financial statements comply with that Act.

The unaudited interim financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards 34 (“NZ IAS-34”) “Interim Financial Reporting”.

Basis of Preparation

The financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The financial statements are presented in New Zealand dollars.

The same accounting policies and methods of computation are followed in these interim financial statements as were applied in the preparation of the Company’s financial statements for the year ended 31 March 2009, except for the impact of the adoption of the Standards and Interpretations described below:

NZ IAS 1 Presentation of Financial Statements
(effective for annual periods beginning on or after 1 January 2009)

The revised Standard has introduced a number of terminology changes (including revised titles for the interim financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised Standard has no impact on the reported results or financial position of the Company.

NZ IFRS 8 Operating Segments
(effective for annual periods beginning on or after 1 January 2009)

NZ IFRS 8 is a disclosure Standard that has resulted in a reassessment of the Company’s reportable segments (refer note 6), but has no impact on the reported results of financial position of the Company.

BLIS TECHNOLOGIES LIMITED
NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS
For the 6 Months Ended 30 September, 2009

2. RECONCILIATION OF NET DEFICIT AFTER TAXATION WITH NET CASHFLOWS FROM OPERATING ACTIVITIES

	6 mths 30 Sep 09 (Unaudited) \$'000s	6 mths 30 Sep 08 (Unaudited) \$'000s	12 mths 31 Mar 09 (Audited) \$'000s
NET SURPLUS (DEFICIT) FOR THE PERIOD	(180)	(411)	(488)
Adjustments for non-cash items:			
Depreciation	26	25	51
Amortisation of capitalised development costs	64	51	76
Amortisation of patents	8	18	15
Amortisation of Convertible Preference Share issue costs	47	-	-
	<u>145</u>	<u>94</u>	<u>142</u>
Movement in working capital			
Accounts receivable	(201)	71	(97)
Prepayments	172	5	(173)
Accounts payable	36	(10)	299
Taxation receivable	-	8	-
Inventories	(21)	(29)	-
	<u>(14)</u>	<u>45</u>	<u>29</u>
Movements relating to investing and financing activities			
Prepaid expenses relating to financing activities	(161)	-	161
	<u>(210)</u>	<u>(272)</u>	<u>(156)</u>
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	<u>(210)</u>	<u>(272)</u>	<u>(156)</u>

3. a) SHARE CAPITAL- ORDINARY SHARES

Balance at beginning of period	26,033	25,549	25,549
Shares issued	-	-	500
Partly paid shares issued	-	126	-
Share issue costs	-	-	(16)
Balance at end of period	<u>26,033</u>	<u>25,675</u>	<u>26,033</u>

b) NUMBER OF SHARES ON ISSUE

Balance at beginning of period	143,847	131,829	131,829
Shares issued	-	12,018	12,018
Balance at end of period	<u>143,847</u>	<u>143,847</u>	<u>143,847</u>

Currently, 5,000,000 of the issued shares are held by the Company as Treasury Stock.

BLIS TECHNOLOGIES LIMITED
NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS
For the 6 Months Ended 30 September, 2009

4. a) **CONVERTIBLE PREFERENCE SHARES**

	6 mths 30 Sep 09 (Unaudited) \$'000s	6 mths 30 Sep 08 (Unaudited) \$'000s	12 mths 31 Mar 09 (Audited) \$'000s
Balance at beginning of period	-	-	-
Convertible Preference Shares (CPS) issued	3,000	-	-
Cost of raising CPS	(362)	-	-
Amortisation of CPS issue costs	47		
	<hr/>	<hr/>	<hr/>
Balance at end of period	2,685	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
b) NUMBER OF SHARES ON ISSUE	No, '000	No, '000	No, '000
Balance at beginning of period	-	-	-
Convertible Preference Shares issued	3,000	-	-
	<hr/>	<hr/>	<hr/>
Balance at end of period	3,000	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

During the period the company issued 3,000,000 \$1 mandatory convertible cumulative preference shares (CPS). The CPS carry rights to a 10% gross dividend payable semi-annually. The CPS will convert into ordinary shares on 8th of May, 2012 at a ratio of 95% of the ordinary share price prevailing in the 20 business days prior to conversion subject to a minimum conversion ratio of 25 ordinary shares per preference share and a maximum conversion ratio of 100 ordinary shares per preference share. On the basis the conversion to ordinary shares is not at a fixed ratio, the CPS are classified as a liability for financial reporting purposes. The directors consider the CPS to be part of the Company's capital base and that they represent part of investors' interests in the company.

Edinburgh Equity Nominee Limited, a related party, was the underwriter with respect to the CPS issue and pursuant to the underwriting agreement was issued an option to subscribe for 1,000,000 preference shares at \$1.00 each by 31 March 2010. At the date of this report Edinburgh Equity Nominee Limited has not exercised this option.

5. **CAPITAL COMMITMENTS, CONTINGENT LIABILITIES**

There were no capital commitments or contingent liabilities as at 30 September, 2009 (2008: \$Nil).

6. **OPERATING SEGMENTS**

The Company has adopted NZ IFRS 8 *Operating Segments* with effect from 1 January 2009. NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance. In contrast, the predecessor Standard (NZ IAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as a starting point for the identification of such segments.

The Company is internally reported as a single operating segment to the chief operating decision-maker, therefore no further changes to reportable segments have been made compared to previous segments reported under NZ IAS 14 *Segment Reporting*.