

Chairman's Letter

For the 12 months ended 31 March 2006 the company achieved revenue of \$17.8 million, which was 12% down on the previous year (\$20.1million). This resulted in a net deficit for the year of \$659,000 compared to the previous year deficit of \$227,000 (on a comparative basis).

The deficit for the period was after a depreciation charge of \$310,000 and finance costs of \$370,000. EBITDA for the full year was still negative \$329,000 which, although showing a small improvement in the 2nd half from a 1st half EBITDA deficit of \$201,000, was affected by lower than expected revenue in the 4th quarter, notwithstanding the reduction in costs implemented. Since balance date the company has embarked on further restructuring of its business to reduce costs to achieve a positive result off a more constant revenue base for the year to March 2007. The Chief Executive's report comments more on this.

The financial statements and comparatives have been prepared in accordance with the International Financial Reporting Standards (NZIFRS). The company elected to adopt the NZIFRS as at 31 March 2006. Under NZIFRS, comparative financial statements are restated to reflect the adoption of NZIFRS in the comparative period. Accordingly the net deficit for the previous period (year ended 31 March 2005) has been restated from a deficit of \$937,000 to a deficit of \$227,000. The key changes in accounting policies that affect the results of the company are in amortisation of goodwill.

Goodwill under NZIFRS is restated to \$1.1million and not amortised over 10 years but subject to an annual impairment test. No change in impairment value as at 31 March 2006 was considered necessary by the directors.

The company has accumulated tax losses in NZ and Australia but the directors have elected not to recognise the future tax benefit of approximately \$600,000 in the financial statements as at 31 March 2006.

As reported at the half year, the company made a placement of shares of \$250,000 on 30 September 2005 and at the same time moved to the NZAX.



Chris Due,
Chairman

Chief Executive's Report

While the past year has seen some success in terms of new business and customer opportunities, we have failed to convert this into better financial results. Our challenge for the coming year is to restore the essence of what made us successful while embracing the opportunities created through our product and market development.

Our revenues are down on the previous year by 12% and gross profit by 13%, driven principally from the sharp decline in global packaged media pricing. While Media Technology Group is insulated more than some competitors by having a stronger services and solutions offering, the underlying media price drop has been far more aggressive than our ability to adjust the company's internal cost structure.

The restructuring work underway will result in Media Technology Group taking a far leaner and more customer responsive format. In turn it should generate an adequate surplus to improve our capital positions and enable us to support our product development investment.

We remain committed to the path of building a great business around "Digital > Media > Logistics". Earlier this year we earned significant new business contracts based on our ability to merge our range of products and services into elegant customer solutions. This gives us confidence in our overall strategic direction.

The immediate task is to "Restructure, Refocus and Revitalise" Media Technology increasingly around integrated online delivery solutions. This means continuing the change process internally, grooming new leadership, acquiring new skills and applying them wisely to our loyal customer base.

We have recently launched our "*broadband-by-postTM*" initiative into parts of the Australian market. It provides corporate marketers and communications professionals an introduction to the (now) proven benefits of using "Disc + Mailer + Post" as a direct marketing bridge from the letterbox to the internet. This is the resulting spin-off solution that brings together several product, service and technology components where we have an established leadership position.

Clearly the past year's performance is disappointing and frustrating for myself and the team. However, we remain passionate about what we offer our customers now and increasingly our online future. Our challenge is to adapt to our fast changing industry conditions. Media Technology Group will continue to reorganise itself to ensure it keeps looking outside, becomes more agile embraces innovation and take risks (and rewards) associated with industry leadership.

We value your continued support and look forward to a more rewarding result for the year to March 2007.



Allan Morton
Managing Director & Chief Executive

Corporate Governance

The objective of the Company is to enhance shareholder value. The Board considers there is a strong link between good corporate governance policies and practices and the achievement of this objective. The board has adopted a corporate governance policy, which is available on the company's web site at www.mediatechnology.co.nz

The directors are responsible for reviewing and maintaining the corporate governance principles of the company and consider that they do not materially differ from the principles set out in the NZX Corporate Governance Best Practice Code.

Board of Directors

The business and affairs of the Company are managed directly by the Board of Directors or by the Chief Executive under the direction of the Board. In particular the board:

- establishes the long term goals of the company and strategic plans to achieve those goals;
- reviews and adopts the annual budgets for the financial performance of the company and monitors results on a monthly basis;
- ensures preparation of the annual and half-yearly financial statements;
- manages risk by ensuring that the company has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities; and
- works with management to create shareholder value.

The board consists of two non-executive directors, one of whom is the Chairman, and one executive director who is the chief executive officer. The board and its individual members are subject to regular evaluation.

The board meets regularly on a formally scheduled basis, at least ten times per year. All available information relating to items to be discussed at a meeting of the board is provided to each non-conflicted director prior to that meeting.

One third, or the whole number nearest one third, of the directors retire by rotation at each Annual General Meeting. The directors to retire are those who have been longest in office since the last election. Directors retiring by rotation may, if eligible, stand for re-election. Mr Gilmour retired and was re-elected at the last Annual General Meeting on 29 September 2005. Mr Morton is an executive director and is not required to retire and seek re-election. Mr Due will retire and seek re-election at the Annual General Meeting. A director appointed since the previous Annual General Meeting holds office only until the next Annual General Meeting but is eligible for re-election at that meeting.

Each director has the right to seek independent legal and other professional advice, at the company's expense with the prior approval of the chairman, concerning any aspect of the company's operations or undertakings to assist in fulfilling their duties and responsibilities as directors.

The board has two standing committees, namely audit and remuneration. Other committees are formed for specific purposes and disbanded as required.

Audit committee

The audit committee consists of one director who is a non-executive director and the company's independent financial advisor. The current members of the committee are:

- Mr Chris Due chairman (from 14 December 2005 previously Mr Gary Lee)
- Mr Murray Willis

The audit committee provides a forum for the effective communication between the board and external auditors. The committee reviews the annual and half-yearly financial statements prior to their approval by the board, the effectiveness of management information systems and systems of internal control and the efficiency and effectiveness of the audit functions.

The committee generally invites the chief executive officer, chief financial officer, and the auditors to attend audit committee meetings. The committee also meets with and receives regular reports from the auditors concerning any matters that arise in connection with the performance of their respective roles, including the adequacy of internal controls.

Remuneration Committee

The current members of the remuneration committee, both of whom are non executive directors, are:

- Mr Scott Gilmour, chairman
- Mr Chris Due (from 14 December 2005)

The committee reviews the remuneration packages of all directors and the senior management team annually and makes recommendations to the board. The packages, which consist of base salary, fringe benefits, incentive schemes (including performance-related bonuses) and share options, are reviewed with due regard to performance and other relevant factors.

In order to attract and retain executives of sufficient calibre to facilitate the efficient and effective management of the company's operations, the committee seeks assistance from external advisers in connection with the structure of remuneration packages.

Nomination Committee

The board as a whole undertakes the role of nomination committee given the small size of the board. The board reviews the composition of the board annually to ensure that the board comprises a majority of non-executive directors, with an appropriate mix of skills and experience. Where necessary, the board seeks assistance from external advisers in connection with the suitability of applicants for board membership.

The terms and conditions of the appointment of directors are set out in a formal letter of appointment that deals with the following matters:

- duration of appointment; role of the board; timing and location of board meetings, and expected time commitment; remuneration including timing of reviews; committee involvement; board and individual evaluation processes;
- outside interests including other directorships; dealing in company shares;
- induction and development processes; access to independent professional advice; availability of liability insurance; and confidentiality of company information.

Code of Ethics

As part of the board's commitment to the highest standards of behaviour and accountability, the company adopts a code of ethics to guide executives, management and employees in carrying out their duties and responsibilities. The code covers such matters as:

- responsibilities to shareholders;
- relations with customers and suppliers;
- product / services quality;
- protection of company assets;
- employment practices; and
- responsibilities to the community.

An interests' register is maintained for the Company in which the particulars of certain transactions and matters involving the directors must be recorded. The interests' register is available for inspection at its registered office. When a director has declared an interest in a particular entity, as a shareholder or director, the declaration serves as notice that the director may benefit from any transaction between the Company and the identified entity.

The Board has adopted a specific policy for directors, senior staff and other insiders for trading in the Company's securities. Compliance with this policy is actively managed and a director must declare to the Board any interest in a transaction with the Company, any relationship that might compromise his or her ability to act independently from management and any conflicts of interest that are potentially detrimental to the Company. While a director has inside information on the Company he or she must not trade in, or advise others to trade in, the securities of the Company.

Directors' Responsibility Statement

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 March 2006 and their financial performance and cash flows for the period ended on that date.

The directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting principles, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider they have taken adequate steps to safeguard the assets of the Company and the Group to prevent and detect fraud and other irregularities.

The directors have pleasure in presenting the financial statements, set out on pages 6 to 28, of Media Technology Group Limited for the period ended 31 March 2006.

The Board of Directors of Media Technology Group Limited authorised these financial statements for issue on 16 August 2006.

For and on behalf of the Board



Chris Due,
Chairman

**AUDIT REPORT
TO THE SHAREHOLDERS OF
MEDIA TECHNOLOGY GROUP LIMITED**

We have audited the financial report on pages 6 to 28. The financial report provides information about the past financial performance and financial position of the Company and Group as at 31 March 2006. This information is stated in accordance with the accounting policies set out on pages 9 to 14 of the financial report.

Board of Director's Responsibilities

The Board of Directors' are responsible for the preparation of a financial report which gives a true and fair view of the financial position of the Company and Group as at 31 March 2006 and of their results of operations and cash flows for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial report presented by the Directors and report our opinion to you.

Basis of Opinion

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

- the significant estimates and judgements made by the directors in the preparation of the financial report, and
- whether the accounting policies are appropriate to the Company and Group circumstances, consistently applied and adequately disclosed.

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

Other than in our capacity as auditor we have no other relationship with or interests in the Company or any of its subsidiaries.

Fundamental Uncertainty

In forming our unqualified opinion we have considered the adequacy of the disclosures made in the financial statements regarding the group's dependence on the continuing support of its major shareholders, future funding requirements and future sales. In particular we note the following:

- The Group is dependent on the continuing support of its major shareholders as detailed in Note 11.
- The Group has refinanced part of its loan facility as detailed in Note 11.
- The projected cash flows is dependent on the timing and amount of future sales.

The financial statements have been prepared on a going concern basis, the validity of which depends on future sales, the group's dependence on the continuing support of its major shareholders and the future funding being available. The financial statements do not include any adjustments that would result from a failure to obtain funding, shareholder support and future sales. Details of the circumstances relating to this fundamental uncertainty are described in Note 29.

Unqualified Opinion

We have obtained all of the information and explanations we have required.

In our opinion;

- Proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- The financial report on pages 6 to 28;
 - complies with generally accepted accounting practice;
 - gives a true and fair view of the financial position of the Company and Group as at 31 March 2006 and their results of operations and cash flows for the year ended on that date.

Our audit was completed on 16 August 2006 and our unqualified opinion is expressed as at that date.



BDO SPICERS
CHARTERED ACCOUNTANTS
AUCKLAND NZ

MEDIA TECHNOLOGY

Income Statement for the year ended 31 March 2006

	Notes	GROUP		PARENT	
		2006 \$000s	2005 \$000s	2006 \$000s	2005 \$000s
Operating revenue		17,814	20,133	-	-
Cost of sales		(11,190)	(12,552)		
Gross Profit		6,624	7,581		
Other operating income	4	24	77		
Expenses	5				
- Distribution		(446)	(662)	-	-
- Finance		(370)	(453)	(1)	-
- Sales & marketing		(4,622)	(4,039)	-	-
- Administrative		(1,908)	(2,217)	-	-
- Other		(311)	(420)	-	-
Operating deficit before taxation		(1,009)	(133)	(1)	-
Income tax expense/(benefit)	6	(350)	94	-	-
Operating deficit after taxation		(659)	(227)	(1)	-
Net deficit for the period		(659)	(227)	(1)	-
Basic earnings per share (cents)		(0.76)	(0.27)		

Statement of Changes in Equity for the year ended 31 March 2006

	Notes	GROUP		PARENT	
		2006 \$000s	2005 \$000s	2006 \$000s	2005 \$000s
Equity at beginning of the year		(521)	(239)	(89)	(89)
Movement in foreign currency translation reserve	8	50	(55)	-	-
Net deficit		(659)	(227)	(1)	-
Total recognised income and expenses for the year		(609)	(282)	(1)	(89)
Contributions from owners					
Issue of shares	7	250	-	250	-
Equity at end of the year		(880)	(521)	160	(89)

The accompanying notes on pages 9 to 28 form part of these financial statements

Balance Sheet
as at 31 March 2006

	Notes	GROUP		PARENT	
		2006 \$000s	2005 \$000s	2006 \$000s	2005 \$000s
Equity					
Share capital	7	5,140	4,890	18,623	18,373
Foreign currency translation reserve	8	(179)	(229)	-	-
Accumulated deficit	9	(5,841)	(5,182)	(18,463)	(18,462)
		-----	-----	-----	-----
Total equity		(880)	(521)	160	(89)
		=====	=====	=====	=====
Current liabilities					
Payables and accruals	10	3,671	4,203	19	18
Borrowings	11	2,080	880	-	-
Inter-company payables		-	-	-	79
		-----	-----	-----	-----
Total current liabilities		5,751	5,083	19	97
		-----	-----	-----	-----
Term Liabilities					
Borrowings	11	600	1,600	-	-
		-----	-----	-----	-----
Total liabilities		6,351	6,683	19	97
		-----	-----	-----	-----
Total equity and liabilities		5,471	6,162	179	8
		=====	=====	=====	=====
Assets					
Current assets					
Cash and bank balances	12	438	296	5	7
Accounts receivable	13	2,575	2,993	1	1
Inter-company receivables		-	-	173	-
Inventory	14	419	551	-	-
		-----	-----	-----	-----
Total current assets		3,432	3,840	179	8
		-----	-----	-----	-----
Non-current assets					
Investments	15	-	-	-	-
Property plant and equipment	17	939	1,222	-	-
Intangibles	18	1,100	1,100	-	-
		-----	-----	-----	-----
Total non-current assets		2,039	2,322	-	-
		-----	-----	-----	-----
Total assets		5,471	6,162	179	8
		=====	=====	=====	=====

For and on behalf of the Board
Director



CP Due
16 August 2006

Director



AL Morton
16 August 2006

The accompanying notes on pages 9 to 28 form part of these financial statements.

Statements of Cash Flows
for the year ended 31 March 2006

	Notes	GROUP		PARENT	
		2006 \$000s	2005 \$000s	2006 \$000s	2005 \$000s
Operating activities					
<i>Cash was provided from:</i>					
Receipts from customers		19,208	20,087	-	59
<i>Cash was applied to:</i>					
Payments to suppliers		(14,748)	(15,118)	-	(52)
Payments to employees		(3,811)	(3,616)	-	-
Interest paid		(260)	(361)	-	-
Rent paid		(670)	(790)	-	-
Tax paid		-	(202)	-	-
Net cash applied to operating activities	19	(281)	-	-	7
Investing activities					
<i>Cash was provided from:</i>					
Repayment of loan		-	-	-	-
<i>Cash was applied to:</i>					
Purchase of property, plant and equipment		(27)	(143)	-	-
Advances to subsidiaries		-	-	(252)	-
Net cash provided from/(applied to) investing activities		(27)	(143)	(252)	-
Financing activities					
<i>Cash was provided from:</i>					
Issue of ordinary shares		250	-	250	-
Proceeds from borrowing		200	104	-	-
<i>Cash was applied to:</i>					
Repayment of borrowings		-	(35)	-	-
Net cash provided from financing activities		450	69	250	-
Net increase/(decrease) in cash held		142	(74)	(2)	7
Cash at beginning of period		296	370	7	-
Cash acquired with acquisition of subsidiaries		-	-	-	-
Foreign exchange gain on conversion of cash balance		-	-	-	-
Cash at end of period		438	296	5	7
Composition of cash:					
Cash and bank balances		438	296	5	7

The accompanying notes on pages 9 to 28 form part of these financial statements.

Notes to the Financial Statements for the year ended 31 March 2006

1. STATEMENT OF ACCOUNTING POLICIES

Introduction

Media Technology Group Limited is a company registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange.

Financial statements for Media Technology Group Limited (the "Company") and consolidated financial statements are presented. The consolidated financial statements comprise the Company and its subsidiaries (the "Group").

Media Technology Group Limited is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements of the Company and Group have been prepared in accordance with the Financial Reporting Act 1993.

The following principal accounting policies have been applied in the preparation of the financial report.

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statement for Media Technology Group Limited as an individual entity and the Group consisting of Media Technology Group Limited and its subsidiaries.

1.1 Basis of preparation

This general purpose financial report has been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZIFRS's), and its interpretations adopted by the Accounting Standards Review Board (ASRB).

Compliance with IFRS

New Zealand Accounting Standards include New Zealand equivalents to International Financial Reporting Standards. Compliance with NZIFRS ensures that the consolidated financial statements and notes of Media Technology Group Limited comply with International Financial Reporting Standards (IFRS's). The parent entity financial statements and notes also comply with IFRS's. The Group has elected to apply the relief from the disclosure requirements contained in NZIFRS 3 *Business Combinations: Business combinations arising before the adoption of NZIFRS*.

Application of NZIFRS1 First-time Adoption of New Zealand equivalents to International Financial Reporting Standards

These financial statements are the first Media Technology Group Limited financial statements to be prepared in accordance with NZIFRS's. NZIFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of Media Technology Group Limited until 31 March 2005 had been prepared in accordance with previous New Zealand Generally Accepted Accounting Principles (NZGAAP). NZGAAP differs in certain respects from NZFRS. Management has amended certain accounting, valuation and consolidation methods applied in the preparation the Groups' 2005 financial statements prepared under NZGAAP to comply with NZIFRS. The comparative figures in respect of 2005 were restated to reflect these adjustments. Reconciliations and descriptions of the effect of transition from previous NZGAAP to NZIFRS's on the Group's equity and its net income are given in note 30.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with NZIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Notes to the Financial Statements

for the year ended 31 March 2006

1.2 Basis of consolidation

Reverse Acquisition

The consolidated financial statements have been prepared using reverse acquisition accounting. As a consequence of applying reverse acquisition accounting, the results for the period ended 31 March 2005 comprise the results of Media Technology Group Limited and its subsidiaries. As set out in note 18, goodwill amounting to \$1,100,000 arose on the difference between the fair value of the net assets of Media Technology Group Limited at the date of acquisition and the fair value of the portion of Digital Disc Holdings Limited shares deemed to be issued to Media Technology Group shareholders to complete the acquisition.

In reverse acquisition accounting, the cost of the business combination is deemed to have been incurred by legal subsidiary Digital Disc Holdings Limited (the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent, Media Technology Group Limited (the acquiree for accounting purposes).

Subsequent Acquisitions

All subsequent acquisitions of subsidiaries are accounted for using the purchase method.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-Company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the asset given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 19). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under the comparable terms and conditions.

1.3 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Interest and rental income is recognised in the income statement as it accrues.

Notes to the Financial Statements
for the year ended 31 March 2006

1.4 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill of the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

1.5 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Costs may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Category	Estimated useful life (years)
Plant and equipment	5 - 11
Leased plant and equipment	5 - 11
Office furniture and fittings	3 - 20
Software	4
Leasehold improvements	10 – 20

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

1.6 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services with a particular economic environment and it is subject to risks and returns that are different from those of segments operating in other economic environments.

1.7 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities use the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in New Zealand dollars, which is Media Technology Group Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities, denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Notes to the Financial Statements **for the year ended 31 March 2006**

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Group Companies

The results and financial position of all of the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- assets and liabilities for each balance sheet presented are translated at the closing rate of the date of that balance sheet;
- income and expenses for each income statement are translated at average all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss in sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1.8 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

1.9 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; and bank overdrafts. Bank overdrafts are shown within borrowing in current liabilities on the balance sheet.

1.10 Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax liabilities are recognised for temporary differences at the tax rates expected to apply when the liabilities are settled, based on those tax rates that are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are not recognised for deductible temporary differences and unused tax losses. .

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount of tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Notes to the Financial Statements for the year ended 31 March 2006

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

1.11 Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

1.12 Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

The collection of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful 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 receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

1.13 Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid at balance date. The amounts are unsecured and are usually paid within 30 days of recognition.

1.14 Inventories

Inventories are recognised at the lower of cost, determined on a first-in first-out basis and net realisable value. The cost of work in progress and finished goods includes the cost of direct material, direct labour, and a proportion of manufacturing overhead, based on normal capacity of the facilities expended in putting the inventories in their present location and condition.

1.15 Provision

Provision for legal claims and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

1.16 Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick 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. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

1.17 Dividends

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

Notes to the Financial Statements

for the year ended 31 March 2006

1.18 Earnings Per Share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

1.19 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leases property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element on the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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 (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

1.20 Borrowings

Borrowings are recognised at fair value, net of transaction costs incurred. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed.

1.21 Financial Liability and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Debt instruments issued which carry a right to convert to equity that is dependent on the outcome of uncertainties beyond the control of both the Group and the holder are classified as liabilities except where the possibility of non conversion is remote.

1.22 Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

1.23 Goods and Services Tax (GST)

The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Notes to the Financial Statements for the year ended 31 March 2006

2. FINANCIAL RISK MANAGEMENT

Business risks are controlled within tolerance levels and targets set by senior management and approved by the Board.

The underlying risk framework and operational control environment consists of:

- Skilled and competent staff with well-defined roles and responsibilities organised appropriately to control the Company's key activities.
- Guidance for all staff on expected standards of behaviour that is fundamental to the Group culture and values as provided in the Code of Ethics.
- Clear formal policy and procedures covering all key areas of risk.
- Clearly defined responsibilities and appropriate levels of delegated authority (and complementary escalation processes).
- Timely, complete and accurate financial and operational management information. Continuous adherence to sound risk management practices.

Management is responsible for the development of a control framework, the monitoring and administration of risk, and the active promotion of a management culture that accords a high value to disciplined and effective risk management. Each business manager is responsible for managing risk associated with his/her respective business activities including:

- continuous identification and assessment of the particular risks to which each unit is exposed;
- implementation of appropriate procedures to control the risks; and
- monitoring their effectiveness and administration, including reporting.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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.

i. Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1.4 and 1.8. The recoverable amounts of cash generated units have been determined based on value-in-use calculations. These calculations require the use of assumptions on the forecast profitability and cashflows of the various parts of the Group to which goodwill had been assigned.

ii. Income taxes

The Group is subject to income taxes in New Zealand and Australia where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are a number of transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liability for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

iii. Deferred taxes

The Directors are of the view there is not a reasonable probability that the tax losses will be utilised in the foreseeable future. The deferred tax benefit of those losses has therefore not been recognised in the Balance Sheet.

Notes to the Financial Statements
for the year ended 31 March 2006

	GROUP		PARENT	
	2006 \$000s	2005 \$000s	2006 \$000s	2005 \$000s
4. OTHER OPERATING REVENUE				
Foreign currency gain	24	77	-	-
5. EXPENSES				
Audit fees	30	25	-	-
Bad debts	7	136	-	-
Depreciation	310	420	-	-
Directors' fees	83	83	-	-
Rental and operating leases	792	843	-	-
Wages & salaries	3,811	3,638	-	-
Write down investment in subsidiary	-	-	-	8,189
Write down Intercompany receivable	-	-	174	-
6. INCOME TAX				
<u>Income tax Expense</u>				
Current tax	(350)	94	-	-
	=====	=====	=====	=====
<u>Reconciliation of income tax expense to prima facie tax payable</u>				
Operating deficit before tax:	(1,009)	(133)	(1)	(8,189)
	-----	-----	-----	-----
Taxation expense/(benefit) at the rate of:				
33% on New Zealand income/(deficit)	(584)	45	-	(2,702)
30% on Australian income/(deficit)	233	(73)	-	-
Taxation effect of permanent differences:				
Non-deductible expenses	18	13	-	2,702
Taxation effect of timing differences not recognised	(350)	(30)	-	-
Tax losses not brought to account	333	139	-	-
	-----	-----	-----	-----
Income tax expense/(benefit)	(350)	94	-	-
	=====	=====	=====	=====

The Group has tax losses in the New Zealand companies of \$1,015,000 (2005: nil) and Australian companies of \$977,000 (2005: \$1,650,000) available to be carried forward to reduce future income tax liabilities in the New Zealand and Australian companies respectively. Utilisation of these losses is subject to compliance with income tax legislation and future operating results. The Group has not recognised deferred tax assets arising from these losses and other temporary differences of \$638,000 (2005: \$507,000).

Notes to the Financial Statements
for the year ended 31 March 2006

7. SHARE CAPITAL

Issued and paid up capital

All shares issued are ordinary shares and rank equally with one vote attached to each fully paid share.

	GROUP		PARENT	
	2006	2005	2006	2005
	\$000s	\$000s	\$000s	\$000s
Balance at beginning of period	5,610	5,610	19,093	19,093
Issue of shares to others	250	-	250	-
	-----	-----	-----	-----
	5,860	5,610	19,343	19,093
Less shares held by Digital Disc Employee Share Trust	(720)	(720)	(720)	(720)
	-----	-----	-----	-----
Balance at end of period	5,140	4,890	18,623	18,373
	=====	=====	=====	=====

Movement in Ordinary Share Capital

Parent

	Number of shares	Issue Price	\$000s
Balance 31 March 2004	85,031,485		18,373
Movement for period	-		-
	-----		-----
Balance 31 March 2005	85,031,485		18,373
2,500,000 shares issued at 10cents each on 29 September 2005	2,500,000	\$0.10	250
	-----		-----
Balance 31 March 2006	87,531,485		18,623
	=====		=====

Group

Under reverse acquisition accounting, Digital Disc Holdings Limited is deemed to be the parent company. The reconciliation below shows the composition of Group share capital.

	Group \$000s
Balance 31 March 2004	4,890
Movement for period	-

Balance 31 March 2005	4,890
2,500,000 shares issued at 10cents each on 29 September 2005	250

Balance 31 March 2006	5,140
	=====

8. FOREIGN CURRENCY TRANSLATION RESERVE

	GROUP		PARENT	
	2006	2005	2006	2005
	\$000s	\$000s	\$000s	\$000s
Balance at beginning of period	(229)	(174)	-	-
Movement for period	50	(55)	-	-
	-----	-----	-----	-----
Balance at end of period	(179)	(229)	-	-
	=====	=====	=====	=====

Notes to the Financial Statements
for the year ended 31 March 2006

	GROUP		PARENT	
	2006 \$000s	2005 \$000s	2006 \$000s	2005 \$000s
9. ACCUMULATED DEFICIT				
Balance at beginning of period	(5,182)	(4,955)	(18,462)	(18,462)
Net deficit for period	(659)	(227)	(1)	-
	-----	-----	-----	-----
Balance at end of period	(5,841)	(5,182)	(18,463)	(18,462)
	=====	=====	=====	=====
10. PAYABLES AND ACCRUALS				
Trade payables	2,754	3,044	-	-
Employee entitlements and arrears	351	406	-	-
GST payable	123	99	-	-
Sundry payables and accruals	380	204	19	18
Taxation	63	450	-	-
	-----	-----	-----	-----
	3,671	4,203	19	18
	=====	=====	=====	=====
11. BORROWINGS				
<u>Current</u>				
Secured loan – weighted average interest rate 15.63% pa (2005: 14.76%).	1,858	787	-	-
Secured shareholders loans – weighted average interest rate 12.00% pa (2005: 12%)	222	93	-	-
	-----	-----	-----	-----
	2,080	880	-	-
	=====	=====	=====	=====
<u>Term</u>				
Secured loan – weighted average interest rate 15.63% pa (2005: 14.76% pa)	-	1,000	-	-
Secured shareholders loans – weighted average interest rate 12.00% pa (2005: 12%)	600	600	-	-
	-----	-----	-----	-----
	600	1,600	-	-
	=====	=====	=====	=====
<u>Secured loans</u>				
The secured loan is a trade finance facility with a limit of NZ\$1,750,000. It commenced June 2003 and is subject to annual review. It is secured by registered first Security Deed over Digital Disc Holdings Limited and Media Technology Limited, and registered first debenture over Media Technology Pty Limited and personal guarantees of A & S Morton and C Due. As at 31 March 2006 the total borrowings under the facility exceeded the limit by \$108,000 (2005: \$37,000). Subsequent to balance date the directors have reached agreement with another party to replace \$1m of the facility with a new facility from another financier for up to A\$1.7m which will be secured by a fixed and floating charge over the assets of Media Technology Pty Limited and guaranteed by other members of the group.				
<u>Secured shareholders loans</u>				
The secured shareholders loans are secured by registered second Security Deed over Digital Disc Holdings Limited.				
12. CASH AND BANK BALANCES				
Cash on hand and at bank	438	296	5	7
	=====	=====	=====	=====

Notes to the Financial Statements
for the year ended 31 March 2006

	GROUP		PARENT	
	2006	2005	2006	2005
	\$000s	\$000s	\$000s	\$000s
13. ACCOUNTS RECEIVABLE				
Trade receivables	2,471	2,455	-	-
Less provision for doubtful debts	(133)	(133)	-	-
GST receivable	-	6	-	-
Other receivables	10	284	1	1
Deposits and prepayments	227	381	-	-
	-----	-----	-----	-----
	2,575	2,993	1	1
	=====	=====	=====	=====

14. INVENTORIES				
Raw materials	419	539	-	-
Work in progress	-	-	-	-
Finished goods	-	12	-	-
	-----	-----	-----	-----
	419	551	-	-
	=====	=====	=====	=====

	GROUP		PARENT	
	2006	2005	2006	2005
	\$000s	\$000s	\$000s	\$000s
15. INVESTMENTS				
<u>Investment in subsidiaries</u>				
Cost	-	-	5,642	5,642
Less Provision	-	-	(5,642)	(5,642)
	-----	-----	-----	-----
	-	-	-	-
	=====	=====	=====	=====

16. INVESTMENT IN SUBSIDIARIES

The Parent's investments in subsidiaries are stated at cost. All subsidiaries have 31 March balance dates. Other details are:

Name of entity	Principal activities	Incorporated	Group Interest	
			2006	2005
Digital Disc Holdings Limited	NZ holding company	NZ	100%	100%
Media Technology Limited	Digital media, replication, design, packaging and on-line fulfilment	NZ	100%	100%
Media Technology Pty Limited	Digital media, replication, design, packaging and on-line fulfilment	Australia	100%	100%
Software Images Pty Limited	Australian holding company	Australia	100%	100%
Digital Disc Trustee Limited	Trustee of employee share ownership plan	NZ	100%	100%
Software Images Limited	Not trading	NZ	100%	100%

Notes to the Financial Statements
for the year ended 31 March 2006

17. PROPERTY PLANT AND EQUIPMENT

Group	Plant and equipment	Office furniture and fittings	Leasehold alterations	Software	Total
	\$000's	\$000's	\$000's	\$000's	000's
At 1 April 2004					
Cost	4,142	301	610	279	5,332
Accumulated depreciation	(3,260)	(199)	(209)	(164)	(3,832)
	-----	-----	-----	-----	-----
Net book value	882	102	401	115	1,500
	=====	=====	=====	=====	=====
Year ended 31 March 2005					
Opening net book amount	882	102	401	115	1,500
Additions	109	24	8	1	142
Disposals	-	-	-	-	-
Depreciation charge	(323)	(28)	(30)	(39)	(420)
	-----	-----	-----	-----	-----
Closing net book amount	668	98	379	77	1,222
	=====	=====	=====	=====	=====
At 31 March 2005					
Cost	4,251	325	618	280	5,474
Accumulated depreciation	(3,583)	(227)	(239)	(203)	(4,252)
	-----	-----	-----	-----	-----
Net book value	668	98	379	77	1,222
	=====	=====	=====	=====	=====
Year ended 31 March 2006					
Opening net book amount	668	98	379	77	1,222
Additions	17	8	-	2	27
Disposals	-	-	-	-	-
Depreciation charge	(174)	(69)	(29)	(38)	(310)
	-----	-----	-----	-----	-----
Closing net book amount	511	37	350	41	939
	=====	=====	=====	=====	=====
At 31 March 2006					
Cost	4,268	333	618	282	5,501
Accumulated depreciation	(3,757)	(296)	(268)	(241)	(4,562)
	-----	-----	-----	-----	-----
Net book value	511	37	350	41	939
	=====	=====	=====	=====	=====

Notes to the Financial Statements
for the year ended 31 March 2006

	GROUP		PARENT	
	2006 \$000s	2005 \$000s	2006 \$000s	2005 \$000s
18. INTANGIBLES				
Goodwill				
Cost at beginning of period	1,100	1,100	-	-
Impairment charged at beginning of period	-	-	-	-
	-----	-----	-----	-----
Net book value at beginning of period	1,100	1,100	-	-
	-----	-----	-----	-----
Additions	-	-	-	-
Impairment charge	-	-	-	-
	-----	-----	-----	-----
Cost at end of year	1,100	1,100	-	-
Impairment as at end of year	-	-	-	-
	-----	-----	-----	-----
Closing net book value	1,100	1,100	-	-
	=====	=====	=====	=====

Goodwill arose on the reverse acquisition of Media Technology Group Limited by Digital Disc Holdings Limited.

19. RECONCILIATION OF OPERATING CASH FLOWS

Reported operating deficit after tax	(659)	(227)	(1)	-
	-----	-----	-----	-----
Add non - cash items and investment activities:				
- Depreciation	310	420	-	-
- Unrealised foreign exchange loss	15	-	-	-
- Other non-cash items	-	(5)	-	46
	-----	-----	-----	-----
	325	415	-	46
	-----	-----	-----	-----
Add/(Less) movements in working capital:				
- Receivables prepayments and deposits	1,558	(211)	-	12
- Inventory	133	(141)	-	-
- Creditors, accruals and taxation	(1,638)	164	1	(51)
	-----	-----	-----	-----
	53	(188)	1	(39)
	-----	-----	-----	-----
Net cash flow from operating activities	(281)	-	-	7
	=====	=====	=====	=====

Notes to the Financial Statements
for the year ended 31 March 2006

	GROUP		PARENT	
	2006 \$000s	2005 \$000s	2006 \$000s	2005 \$000s
20. IMPUTATION CREDIT ACCOUNT				
Balance at beginning of period	830	328	-	-
Income tax paid	10	202	-	-
Income tax paid under tax options	(254)	300	-	-
Imputation credits in subsidiaries acquired during the period	-	-	-	-
	-----	-----	-----	-----
Balance at end of period	586	830	-	-
	=====	=====	=====	=====
At balance date the imputation credits available to the shareholders of the Company were:				-
- Through direct shareholding in the Parent	-	-	-	-
- Through indirect interests in subsidiaries	586	830	-	-
	-----	-----	-----	-----
	586	830	-	-
	=====	=====	=====	=====

The Group cancelled tax options with Tax management New Zealand Limited totalling \$254,000.

21. COMMITMENTS

The following amounts have been committed to, but not recognised in the financial statements.

Non-cancellable operating lease commitments:				
Within one year	445	731	-	-
One to five years	1,093	1,356	-	-
	-----	-----	-----	-----
Total operating lease commitments	1,538	2,087	-	-
	=====	=====	=====	=====

The Group leases premises, plant and equipment. Operating leases held over premises give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor. There are no renewal options or options to purchase in respect of plant and equipment held under operating leases.

At 31 March 2006 neither the Group nor the Parent had material outstanding capital expenditure commitments (2005: nil).

22. CONTINGENT GAINS AND LOSSES

The Parent has given a bond in favour of New Zealand Exchange Limited for \$75,000 (2005: \$75,000).

No company in the Group is involved in any litigation, accordingly there are no claims outstanding, and there are no contingent liabilities at period end (2005: nil).

23. EARNINGS PER SHARE

The deficit for the period represented a return of -0.76 cents per share (2005: -0.27 cents per share) based on weighted average ordinary shares on issue during the period of 86,281,485 (2005: 85,031,485).

**Notes to the Financial Statements
for the year ended 31 March 2006**

24. FINANCIAL INSTRUMENTS

(a) The Group is subject to a number of financial risks which arise as a result of its debt portfolio and investment activities.

(i) Interest rate risk

Interest rates on secured borrowings ranged from 12% to 15.63% p.a. (2005: 12% to 14.76% p.a.).

(ii) Credit risk

In the normal course of business the Group incurs credit risk from transactions. The Group has a credit policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis. The Group does not require any collateral or security to support financial instruments. The directors consider there are no significant concentrations of credit risk, beyond the Group's exposure to registered banks.

(iii) Currency risk

The Group has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities. The foreign currency in which the Group primarily transacts is Australian dollars. The Group does not use forward foreign exchange contracts to hedge its exposures to foreign currency risks.

(iv) Liquidity risk

Liquidity risk would arise where the Group encounters difficulties in raising funds at short notice to meet its financial commitments as they fall due. The Group has internal controls in place in order to reduce the exposure to liquidity risk.

(b) Fair Values

The carrying value of receivables, creditors, borrowings, cash at bank and bank call deposits is their approximate fair value. Unlisted shares are valued by the directors based on the lesser of:

- (i) the cost price, less any amortisation of goodwill; or
- (ii) fair values after taking into account financial and other factors.

Fair values of investments are disclosed in Note 15.

(c) Effective interest rates and repricing analysis

In respect of interest bearing financial liabilities, the following table indicates their effective interest rates at balance sheet date and the periods in which they reprice.

	Note	Effective interest rate	2006			2005		
			Total \$000's	6 months or less \$000's	7 – 12 months \$000's	Total \$000's	6 months or less \$000's	7 – 12 months \$000's
Secured Loan	11	15.6%	1,858	1,858	-	1,787	1,787	-
Secured shareholder loan	11	12%	822	-	822	693	-	693

25. EMPLOYEE SHARE OWNERSHIP PLAN

The Company has an employee share ownership plan (ESOP). The directors have absolute discretion to determine which employees may participate in the ESOP and the price they pay for the shares allocated to them.

The Digital Disc Employee Share Trust has a non-beneficial interest in all shares allocated to employees, and a beneficial interest in shares which have not been allocated. Dividends paid on shares held by the Digital Disc Employee Share Trust are used to service the ESOP's debt. Until employees have paid the full purchase price, all dividends on the shares are beneficially received by the Digital Disc Employee Share Trust. The trustee of the Digital Disc Employee Share Trust is appointed by the directors of the Company. The shares held by the Digital Disc Employee Share Trust carry the same voting rights as other issued ordinary shares. Any shares held by the Trust which are not allocated to an employee may be repurchased by the Company or otherwise dealt with in such manner as the Trustees and the Company determine.

26. SEGMENT INFORMATION

The Group operates in New Zealand and Australia in the provision of digital media, replication, design, packaging and on-line fulfilment services. During the previous period it ceased providing venture capital services to information technology, telephony and Internet companies.

Notes to the Financial Statements
for the year ended 31 March 2006

Industry Segments

The company operates solely in the Digital Media industry.

Geographic Segments

	New Zealand		Australia		Unallocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Revenue								
Total sales	6,179	7,956	11,091	12,684	-	-	17,270	20,640
Intersegment	551	(481)	(7)	(26)	-	-	544	(507)
Sales to external customers	6,730	7,475	11,084	12,658	-	-	17,814	20,133
Result								
Profit/(Loss)	(1,771)	116	762	(249)	-	-	(1,009)	(133)
Income tax expense/(benefit)	(350)	94	-	-	-	-	(350)	94
Net profit/(Loss) for the period	(1,421)	22	762	(249)	-	-	(659)	(227)
Other information								
Assets	1,388	1,176	2,983	3,886	1,100	1,100	5,471	6,162
Liabilities	2,783	4,301	3,568	2,382	-	-	6,351	6,683
Purchase of property, plant & equipment	10	28	17	115	-	-	27	143
Depreciation	98	127	212	293	-	-	310	420

27. RELATED PARTY INFORMATION

General

All members of the Group are considered to be related parties of Media Technology Group Limited. This includes the subsidiaries identified in Notes 16.

Shareholder loans

Digital Disc Holdings Limited had loans from SAM Holdings (Aust) Pty Limited and Cadre Investments Limited, companies which are owned directly or indirectly by directors and shareholders of the Parent. As at 31 March 2006 the balances of the loans were SAM Holdings (Aust) Pty Limited, \$314,280 (2004: \$234,940) and Cadre Investments Limited \$507,509 (2005: \$457,509). The interest rate on these loans is 12%.

Other related parties

The Parent received no dividends from subsidiaries as set out in Note 3 (2005: nil).

28. SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

As at the date of the signing of these financial statements there were no significant events which had occurred after balance date.

29. GOING CONCERN

After consideration and making appropriate inquiries, the Directors have a reasonable expectation that the Group has and will have sufficient resources to continue its operations for the foreseeable future. Refer to note 11 "Borrowings" for further details. Based on that, the Directors are satisfied that it is appropriate to continue to adopt the going concern assumption in preparing the financial statements for the year-ended 31 March 2006. The Directors have reached this conclusion having regard to the circumstances which they consider likely to affect the company during the period of one year from the date of these financial statements and to circumstances which it knows will occur after that date which could affect the validity of the going concern assumption.

Notes to the Financial Statements **for the year ended 31 March 2006**

30. EXPLANATION OF THE TRANSITION TO NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZIFRS)

As stated in note 1.1, these financial statements are the Group's first consolidated financial statements prepared in accordance with NZ IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2006, the comparative financial statements for the year ended 31 March 2005 and in the preparation of the opening NZ IFRS balance sheet on 1 April 2004 being the Group's date of transition.

In preparing its opening balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (NZ GAAP). An explanation of how the transition has effected the Group's financial position, financial performance and cash flows is set out in the following notes and tables.

Reverse acquisition

As previously described, on 20 January 2004, Digital Disc Holdings Limited acquired Media Technology Group Limited (formerly known as Strathmore Group Limited) a company listed on the NZX, in a reverse acquisition. The transaction has been accounted for using reverse acquisition accounting as described in the statement of accounting policies. For the parent entity, Digital Disc Holdings is still recognised as the acquired entity, however at group level Media Technology Group is recognised as the acquired entity. The effect is:

(i) At 1 April 2004

For the Group, the historical Media Technology equity balances that relate prior to the acquisition date of 20 January 2004 have been reversed and goodwill on acquisition of Media Technology Group of \$1.1m has been recognised. For the parent entity, the full value of the acquisition of Digital Disc Holdings has been recognised reducing equity and intangibles by \$5,632,000.

(ii) At 31 March 2005

For the Group, goodwill is at the new figure of \$1.1m and the amortisation of goodwill charged under GAAP has been reversed. The net effect is that equity and intangibles are both reduced by \$4,992,000. For the parent, investments have been written off, reducing equity and investments by \$5,642,000.

Notes to the Financial Statements
for the year ended 31 March 2006

Reconciliation of equity reported under previous New Zealand Generally Accepted Accounting Principles (NZGAAP) to equity under NZIFRS:

i. At the date of transition to NZIFRS, 1 April 2004

	Group			Parent		
	Previous NZGAAP	Effect of transition to NZIFRS	NZIFRS	Previous NZGAAP	Effect of transition to NZIFRS	NZIFRS
	\$000's	\$000's	\$000's	\$000's	\$000's	000's
Equity						
Share capital	17,371	(12,481)	4,890	18,373	-	18,373
Foreign currency translation reserve	(174)	-	(174)	-	-	-
Accumulated deficit	(11,784)	6,849	(4,935)	(10,273)	(8,189)	(18,462)
	-----	-----	-----	-----	-----	-----
Total equity	5,413	(5,632)	(219)	8,100	(8,189)	(89)
	=====	=====	=====	=====	=====	=====
Liabilities						
Current liabilities						
Payables	3,866	-	3,866	101	-	101
Borrowings	2,410	-	2,410	-	-	-
Intercompany payables	-	-	-	168	(167)	1
	-----	-----	-----	-----	-----	-----
Total current liabilities	6,276	-	6,276	269	(167)	102
	-----	-----	-----	-----	-----	-----
Term liabilities						
Borrowings	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
Total liabilities	6,276	-	6,276	269	-	102
	-----	-----	-----	-----	-----	-----
Total equity & liabilities	11,689	(5,632)	6,057	8,369	-	13
	=====	=====	=====	=====	=====	=====
Assets						
Current Assets						
Cash & bank balances	370	-	370	-	-	-
Accounts receivable	2,677	-	2,677	13	-	13
Inventory	410	-	410	-	-	-
	-----	-----	-----	-----	-----	-----
Total current assets	3,457	-	3,457	13	-	13
	-----	-----	-----	-----	-----	-----
Term assets						
Investments	-	-	-	8,356	(8,356)	-
Property plant & equipment	1,500	-	1,500	-	-	-
Deferred tax asset	-	-	-	-	-	-
Intangibles	6,732	(5,632)	1,100	-	-	-
	-----	-----	-----	-----	-----	-----
Total non-current assets	8,232	(5,632)	2,600	8,356	(8,356)	-
	-----	-----	-----	-----	-----	-----
Total assets	11,689	(5,632)	6,057	8,369	(8,356)	13
	=====	=====	=====	=====	=====	=====

Notes to the Financial Statements
for the year ended 31 March 2006

ii. At the end of the last reporting period under previous NZGAAP, 31 March 2005

	Group			Parent		
	Previous NZGAAP	Effect of transition to NZIFRS	NZIFRS	Previous NZGAAP	Effect of transition to NZIFRS	NZIFRS
	\$000's	\$000's	\$000's	\$000's	\$000's	000's
Equity						
Share capital	17,371	(12,481)	4,890	18,373	-	18,373
Foreign currency translation reserve	(229)		(229)	-	-	-
Accumulated deficit	(12,741)	7,559	(5,182)	(12,820)	(5,642)	(18,462)
	-----	-----	-----	-----	-----	-----
Total equity	4,401	(4,922)	(521)	5,553	(5,642)	(89)
	=====	=====	=====	=====	=====	=====
Liabilities						
Current liabilities						
Payables	4,203	-	4,203	18	-	18
Borrowings	880	-	880	-	-	-
Intercompany payables	-	-	-	79	-	79
	-----	-----	-----	-----	-----	-----
Total current liabilities	5,083	-	5,083	97	-	97
	-----	-----	-----	-----	-----	-----
Term liabilities						
Borrowings	1,600	-	1,600	-	-	-
	-----	-----	-----	-----	-----	-----
Total liabilities	6,683	-	6,683	97	-	97
	-----	-----	-----	-----	-----	-----
Total equity & liabilities	11,084	(4,922)	6,162	5,650	-	8
	=====	=====	=====	=====	=====	=====
Assets						
Current Assets						
Cash & bank balances	296	-	296	7	-	7
Accounts receivable	2,993	-	2,993	1	-	1
Inventory	551	-	551	-	-	-
	-----	-----	-----	-----	-----	-----
Total current assets	3,840	-	3,840	8	-	8
	-----	-----	-----	-----	-----	-----
Term assets						
Investments	-	-	-	5,642	(5,642)	-
Property plant & equipment	1,222	-	1,222	-	-	-
Intangibles	6,022	(4,922)	1,100	-	-	-
	-----	-----	-----	-----	-----	-----
Total non-current assets	7,244	(4,922)	2,322	5,642	(5,642)	-
	-----	-----	-----	-----	-----	-----
Total assets	11,084	(4,922)	6,162	5,650	(5,642)	8
	=====	=====	=====	=====	=====	=====

Notes to the Financial Statements
for the year ended 31 March 2006

Reconciliation of deficit for the year ended 31 March 2005

	Previous NZGAAP	Group Effect of transition to NZIFRS	NZIFRS	Previous NZGAAP	Parent Effect of transition to NZIFRS	NZIFRS
	\$000's	\$000's	\$000's	\$000's	\$000's	000's
Revenue						
Sales	20,133	-	20,133	-	-	-
Foreign currency gain	77	-	77	-	-	-
	-----	-----	-----	-----	-----	-----
Total revenue	20,210	-	20,210	-	-	-
	-----	-----	-----	-----	-----	-----
Expenses						
Amortisation	681	(710)	(29)	-	-	-
Other expenses	20,372	-	20,372	(2,547)	2,547	-
	-----	-----	-----	-----	-----	-----
Total expenses	21,053	(710)	20,343	(2,547)	2,547	-
	-----	-----	-----	-----	-----	-----
Operating deficit before tax	(843)	710	(133)	(2,547)	2,547	-
Income tax expense/(benefit)	94	-	94	-	-	-
	-----	-----	-----	-----	-----	-----
Net deficit after tax	(937)	710	(227)	(2,547)	2,547	-
	=====	=====	=====	=====	=====	=====

Reconciliation of cash flow statement for the year ended 31 March 2005

	Previous NZGAAP	Group Effect of transition to NZIFRS	NZIFRS	Previous NZGAAP	Parent Effect of transition to NZIFRS	NZIFRS
	\$000's	\$000's	\$000's	\$000's	\$000's	000's
Operating activities						
Receipts from customers	20,087	-	20,087	59	-	59
Payments to employees and suppliers	(20,087)	-	(20,087)	(52)	-	(52)
	-----	-----	-----	-----	-----	-----
Net cash applied to operating activities	-	-	-	7	-	7
	-----	-----	-----	-----	-----	-----
Investing activities						
Purchase of property plant & equipment	(143)	-	(143)	-	-	-
Advances to subsidiaries	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
Net cash applied to investing activities	(143)	-	(143)	-	-	-
	-----	-----	-----	-----	-----	-----
Financing activities						
Issue of shares	-	-	-	-	-	-
Net increase in borrowings	69	-	69	-	-	-
	-----	-----	-----	-----	-----	-----
Net cash provided from financing activities	69	-	69	-	-	-
	-----	-----	-----	-----	-----	-----
Net increase in cash held	(74)	-	(74)	7	-	7
Cash at the beginning of the period	370	-	370	-	-	-
	-----	-----	-----	-----	-----	-----
Cash at the end of the period	296	-	296	7	-	7
	=====	=====	=====	=====	=====	=====

Additional Information

1. PRINCIPAL ACTIVITIES

The Company provides digital media, replication, design, packaging and on-line fulfilment services.

2. SHAREHOLDER STATISTICS

Spread of security holdings (at 1 June 2006)

	Shareholders		Ordinary Shares	
	Number	%	Number	%
1	-	4,999	2,572	95.65
5,000	-	9,999	44	1.64
10,000	-	49,999	55	2.05
50,000	-	99,999	5	0.18
100,000	-	499,999	8	0.30
500,000	-	999,999	-	-
1,000,000 plus			5	0.18
			-----	-----
			2,689	100
			=====	====

Domicile of Shareholders (at 1 June 2006)

	Number of shareholders	Percentage of shareholders	Number of shares
New Zealand	2,579	95.9	29,331,140
Australia	64	2.4	58,135,490
Other	46	1.7	64,855
	-----	-----	-----
	2,689	100	87,531,485
	=====	=====	=====

3. MAJOR SHAREHOLDERS

The top twenty holders of ordinary issued fully paid shares at 1 June 2006 were:

Name	Number of shares held	Percentage of issued shares
1. SAM Holdings (Aust) Pty Limited	58,001,905	66.26
2. Cadre Investments Limited	10,700,998	12.23
3. Digital Disc Trustee Limited	6,000,000	6.86
4. Software Images Holdings Limited	5,416,667	6.19
5. Hamish Edward Elliot Brown	3,100,000	3.54
6. Godan Investments	430,015	0.49
7. Custodial Nominee Company Limited	309,425	0.35
8. Philip John Norman, Wendy Joy Norman & Murray Gordon Wells	234,029	0.27
9. Carl Nicholas Bann	159,657	0.18
10. Laddara Pty Limited	105,187	0.12
11. Mark Butcher	103,617	0.12
12. Sean Anthony Dennehy	100,000	0.11
13. Nicklas William Patrick Willemse	100,000	0.11
14. Meryn Peter Davies	60,000	0.07
15. Dino Focus	58,709	0.07
16. Portfolio Custodian Limited	53,011	0.06
17. Pentacles Investments Limited	51,382	0.06
18. Laurence George Coon	50,000	0.06
19. John Peter Nooijen	42,500	0.05
20. Moon Ha Hwang	41,460	0.05
	-----	-----
	85,118,562	97.25
	=====	=====

MEDIA TECHNOLOGY

4. INTERESTS' REGISTER

Each company in the Group is required to maintain an interests' register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests' registers for Media Technology Group Limited and its subsidiaries are available for inspection at its registered office. When a director has declared an interest in a particular entity, as a shareholder or director, the declaration serves as notice that the director may benefit from any transaction between the Company and the identified entity.

5. DIRECTORS' DISCLOSURES

The Boards of the Group's subsidiaries are comprised of members from the Board of the Parent. Where appropriate for jurisdictional or operational issues, outside directors may be introduced. There are no independent directors on the subsidiary Boards. No director of any subsidiary company received any director's fees or other benefits as a director.

Company	Directors
Digital Disc Holdings Limited	AL Morton, CP Due
Media Technology Limited	AL Morton, CP Due
Media Technology Pty Limited	AL Morton, CP Due
Software Images Pty Limited	AL Morton, CP Due
Digital Disc Trustee Limited	AL Morton, SD Morton, CP Due
Software Images Limited	CP Due

Entries in the Interests' Register

The Parent and subsidiaries have recorded the following disclosure by directors during the period:

During the period no matters arose which required recording in the Interests' Register.

Directors' loans

There were no loans to directors.

Information used by Directors

No member of the Board of Media Technology Group Limited or any subsidiary, issued a notice requesting to use information received in their capacity as directors which would not otherwise have been available to them.

Directors' Shareholdings

Details of directors' shareholdings as at 31 March 2006 are set out below:

		Beneficially	Associated Persons
AL Morton	Shares	-	58,001,905
CP Due	Shares	250	11,131,013
S Gilmour	Shares	-	5,416,667
G Lee	Shares	-	-

No existing directors sold shares during the period.

MEDIA TECHNOLOGY

5. DIRECTORS' DISCLOSURES (continued)

Directors' remuneration

During the period, the Board approved the following remuneration, including all termination payments, for the directors:

	2006		2005	
	Fees \$000s	Remuneration \$000s	Fees \$000s	Remuneration \$000s
Directors of Media Technology Group Limited				
CP Due	48	-	20	-
S Gilmour	20	-	20	-
GN Lee*	15	-	-	-
AL Morton	-	291	-	231
PJ Norman**	-	-	43	-

*Resigned 14 December 2005 ** Resigned 31 March 2005

Directors' and Officers' indemnification and insurance

Media Technology Group Limited indemnifies all current directors and officers of the Group against all liabilities (other than to the Company or a subsidiary) which arise out of the performance of their normal duties as directors or officers, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Company has indemnity insurance. The total cost of the insurance during the financial period was \$22,612 (2005: \$26,539) plus GST.

6. NEW ZEALAND STOCK EXCHANGE WAIVERS

The Company has not sought any waivers during the year.

7. EXECUTIVE REMUNERATION

During the period, employees within the Group received remuneration, termination payments and benefits which exceeded \$100,000 as follows:

Number of employees	Band
2	\$100,000 – 110,000
4	\$110,000 – 120,000
1	\$120,000 – 130,000
1	\$160,000 – 170,000
1	\$290,000 – 300,000

8. SUBSTANTIAL SECURITY HOLDERS

Details of the latest Substantial Security Holders in terms of Section 25 of the Securities Amendment Act 1988 which have been provided are as follows:

	Shares	Interest
SAM Holdings (Aust) Pty Limited	58,001,905	66.26
CP Due	11,131,263	12.71
Digital Disc Trustee Limited	6,000,000	6.86
Software Images Holdings Limited	5,416,667	6.19

Directory

Business Office PO Box 47 254 Ponsonby Auckland Ph +64 9 376 8846 Fax +64 9 378 9494 www.mediatechnology.co.nz	Board of Directors Chris Due – Non executive chairman Allan Morton - Managing director Scott Gilmour - Non executive director Gary Lee - Non executive director (resigned 14 December 2005)
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