

XERO LIVE
LIMITED
SHARE OFFER
INVESTMENT
STATEMENT
+ PROSPECTUS

Financial Advisor to the Board
Cameron Partners Limited

Lead Broker
First NZ Capital Securities Limited

Joint Organising Sponsors
Cameron Partners Limited
First NZ Capital Securities Limited

11 May 2007

CAMERON PARTNERS
investment bankers

FIRST NZ CAPITAL

xero

IMPORTANT INFORMATION

INVESTMENT DECISIONS ARE VERY IMPORTANT.

THEY OFTEN HAVE LONG-TERM CONSEQUENCES. READ ALL DOCUMENTS CAREFULLY. ASK QUESTIONS. SEEK ADVICE BEFORE COMMITTING YOURSELF.

THE INFORMATION IN THIS SECTION IS REQUIRED UNDER THE SECURITIES ACT 1978.

CHOOSING AN INVESTMENT When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

- What are my risks? (pages 76 to 77)
 - What sort of investment is this? (pages 72 to 73)
 - Who is involved in providing it for me? (page 74)
 - How much do I pay? (page 74)
 - What are the charges? (page 74)
 - What returns will I get? (page 75)
 - Can the investment be altered? (pages 77 to 78)
 - How do I cash in my investment? (page 78)
 - Who do I contact with enquiries about my investment? (page 78)
 - Is there anyone to whom I can complain if I have problems with the investment? (page 79)
 - What other information can I obtain about this investment? (page 79)
- In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

CHOOSING AN INVESTMENT ADVISER You have the right to request from any investment adviser a written disclosure statement stating his or her experience and qualifications to give advice. That document will tell you:

- Whether the adviser gives advice only about particular types of investments;
- Whether the advice is limited to investments offered by 1 or more particular financial organisations; and
- Whether the adviser will receive a commission or other benefit from advising you.

You are strongly encouraged to request that statement. An investment adviser commits an offence if he or she does not provide you with a written disclosure statement within 5 working days of your request. You must make the request at the time the advice is given or within one month of receiving the advice.

In addition:

- If an investment adviser has any conviction for dishonesty or has been adjudged bankrupt, he or she must tell you this in writing; and
- If an investment adviser receives any money or assets on your behalf, he or she must tell you in writing the methods employed for this purpose.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes.

IMPORTANT NOTICE This Offer Document is for an offer of Shares in Xero Live Limited (“Xero”).

It is a combined investment statement and prospectus for the purposes of the Securities Act and the Securities Regulations, and has been prepared as at, and is dated, 11 May 2007.

The information required to be contained in an investment statement by the Securities Regulations 1983 is set out in the sections entitled “Important Information” (see above) and “Answers to Important Questions” (pages 72 to 79). The purpose of those sections of this Offer Document is to provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to acquire Shares in Xero under the Share Offer. However, investors should note that other important information about the Share Offer, the Shares and Xero is available in the other sections of this Offer Document and in the information available for inspection at the registered office of Xero (described further on page 79).

REGISTRATION OF OFFER DOCUMENT A copy of this Offer Document duly signed, and having copies of the documents required by section 41 of the Securities Act attached, has been delivered to the Registrar of Companies for registration in accordance with section 42 of the Securities Act.

The documents required by section 41 of the Securities Act to be attached to the copy of this Offer Document delivered to the Registrar of Companies for registration are:

- (a) the Auditor’s report in respect of certain financial information included in this Offer Document (set out on pages 70 to 71);
- (b) the signed consent of the Auditor to the Auditor’s report appearing in this Offer Document;
- (c) the signed consent of Ernst & Young to the inclusion in this Offer Document of results of independent research undertaken by it for Xero;
- (d) an acknowledgment from NZX to the effect that an application has been made to NZX for permission to list the Shares, and all the requirements of NZX for the listing of the Shares that can be complied with at that time have been duly complied with; and
- (e) copies of the material contracts referred to in clause 17 on page 84.

NEW ZEALAND EXCHANGE LISTING Application has been made to NZX for permission to list the Shares, and all the requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document. Initial quotation of the Shares is expected to occur on 5 June 2007. NZX has authorised Primary Market Participants to act on the Share Offer.

ELECTRONIC OFFER DOCUMENT This Offer Document is available in electronic form at www.xero.com. The Offer constituted by this Offer Document in electronic form is available only to residents in New Zealand. The availability of this Offer Document on the website is for the purposes of the Offer in New Zealand. The distribution of the Offer Document in electronic form may be prohibited in certain jurisdictions, including the United States, Canada and the United Kingdom, and is not available to residents of such jurisdictions. Persons who access the electronic version of this Offer Document should ensure that they are entitled to do so under applicable laws and, if so, that they download and read the entire Offer Document. The New Zealand Securities Act prohibits the allotment of Shares to any applicant who did not receive a copy of this Offer Document before applying. Accordingly, no person may pass an Application Form on to another person unless it is attached to a hard copy of this Offer Document or the complete and unaltered electronic version of this Offer Document.

OVERSEAS INVESTORS The Share Offer is only being made to members of the public in New Zealand. No person may offer, invite, sell or deliver any Shares or distribute any documents (including this Offer Document) to any person outside New Zealand. This Offer Document may not be sent into or distributed in the United States.

Unless otherwise agreed with Xero, any person or entity applying for Shares under the Share Offer will, by virtue of such Application, be deemed to represent that he, she or it is not in a jurisdiction that does not permit the making of the Share Offer or an invitation of the kind contained in this Offer Document and is not acting for the account or benefit of a person within such a jurisdiction. Neither Xero, nor any of its Directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Share Offer.

NO GUARANTEE No person, Director or entity guarantees the Shares offered under this Offer Document. Only Xero undertakes any liability in respect of the Shares, and then only to the extent required by law.

TAKEOVERS CODE The Takeovers Code, amongst other things, prohibits any person (together with their associates (as defined in the Takeovers Code)) from becoming the holder or controller of 20% or more of the voting rights in the Company other than in compliance with the requirements of the Takeovers Code. Investors are advised to seek legal advice in relation to any act, omission or circumstance which may result in that investor breaching any provision of the Takeovers Code.

RISK AND SUITABILITY OF AN INVESTMENT IN XERO Xero is an early stage software business and an investment in Xero is inherently risky. As such, it may not suit all investors.

The Share Offer does not take into account each investor’s investment objectives, financial situation and particular needs. It is important that investors read this Offer Document in its entirety before deciding whether to apply to purchase any Shares. In particular, investors should consider the risk factors that could affect the performance of Xero (including those set out under the heading “What are my risks?” on pages 76 to 77), particularly with regard to their personal circumstances (including financial and taxation issues). Investors who are in any doubt as to the action they should take, should consult their stockbroker, solicitor, accountant or other financial adviser before deciding to invest.

DEFINITIONS Capitalised terms used in this Offer Document have a special meaning and are defined in the Glossary section of this Offer Document on pages 94 to 95 or in the relevant section in which the term is used.

Unless otherwise indicated, \$ or NZ\$ refers to New Zealand Dollars. All references to time are to time in New Zealand.

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OFFER STATISTICS AND IMPORTANT DATES

SHARE OFFER SUMMARY

Issuer	Xero Live Limited
Shares being offered in the Share Offer	15,000,000
Oversubscriptions	Up to 3,000,000
Total number of shares being offered	Up to 18,000,000
Offer Price	\$1.00
Shares on issue if Share Offer is fully subscribed (excluding oversubscriptions)	55,000,000

IMPORTANT DATES

This timetable is indicative only. Xero reserves the right to:

- (a) extend the Closing Date of the Share Offer or close the Share Offer early, in which case the dates referred to opposite will change accordingly;
- (b) withdraw the Share Offer at any time before the Allotment Date; and
- (c) accept late Applications, either generally or in individual cases.

Offer Document registered	Friday, 11 May 2007
Share Offer opens	Monday, 14 May 2007
Share Offer closes	Wednesday, 30 May 2007
Allotment Date	No later than Tuesday, 5 June 2007
Quotation and trading of shares expected to commence on the NZSX	Tuesday, 5 June 2007
Allotment notices mailed	Tuesday, 5 June 2007
FASTER statements mailed	No later than Thursday, 7 June 2007
Refund cheques mailed (if applicable)	No later than Friday, 8 June 2007

INVESTMENT HIGHLIGHTS

XERO PROVIDES AN **ONLINE ACCOUNTING** SOLUTION FOR SMALL AND MEDIUM SIZED ENTERPRISES (SMEs), WHICH TYPICALLY HAVE LESS THAN 20 EMPLOYEES.

XERO WAS INCORPORATED IN JULY 2006 BY ROD DRURY, AN EXPERIENCED NEW ZEALAND BASED TECHNOLOGY ENTREPRENEUR WHO HAS A RECORD OF BUILDING SUCCESSFUL SOFTWARE BUSINESSES, AND HAMISH EDWARDS, THE OWNER OF AN SME ACCOUNTING BUSINESS AND A PUBLISHED COMMENTATOR ON SMEs.

THEIR VISION IS TO CREATE A GLOBAL SOFTWARE COMPANY FROM NEW ZEALAND BASED ON THE DELIVERY OVER THE INTERNET OF ACCOUNTING SOFTWARE FOR SMEs.

WWW.XERO.COM



KEY INVESTMENT CONSIDERATIONS THIS SHARE OFFER REPRESENTS AN OPPORTUNITY TO INVEST IN AN EARLY STAGE NEW ZEALAND TECHNOLOGY BUSINESS, WITH AN INTERNATIONAL STRATEGY. THE KEY FEATURES OF THIS OPPORTUNITY ARE:

1

SIGNIFICANT MARKET OPPORTUNITY

SMEs are the most common form of business organisation. In all OECD countries, they constitute over 90% of all businesses by number.

Unlike many other software systems, which are largely optional, accounting systems are all but a necessity for SMEs. The predominant accounting software applications that exist today for SMEs are installed on desktop computers.

The Directors believe the time has arrived for SMEs to access software by using Internet technologies.

They also believe there is an opportunity for a fast moving, well funded business, without a legacy business model, to address the expected migration by SMEs to online accounting.

2

HIGH QUALITY TEAM

Xero has recruited a high quality team, as at 30 April 2007 comprising 27 people including the founders, Rod Drury and Hamish Edwards.

The management team is supported by an experienced board of Independent Directors comprising Phil Norman, Graham Shaw, Guy Haddleton and Sam Morgan.

Xero currently intends to establish subsidiaries in the UK and Australia and recruit in-market staff to develop its business in these locations. Xero has been accepted into the New Zealand Trade and Enterprise ("NZTE") Beachheads programme for the UK and has established a UK advisory board, comprising senior UK business people, to assist in the strategic development of the business there.

3 XERO'S PRODUCT IS COMPELLING TO SMEs

Xero's accounting system is different to most installed SME accounting systems currently available in the marketplace in the following important ways:

- **It is easy to use** – limited training is required and the product is customer friendly.
- **It is online** – there is no software to install. Xero is accessible any time through any Internet connection in the world. Xero's login is secure, and Xero has an internal security strategy to protect the Xero products from viruses and spyware. All data is automatically backed up daily.
- **Continuous innovation** – Xero can be updated frequently with product enhancements as well as quickly responding to compliance changes.
- **It is cost effective** – a pay as you go and pay as you grow pricing model.
- **It provides real time access for advisers** – enables an SME to easily share information with its advisers.
- **It assists decision making** – provides immediate visibility of important information for SMEs to run their businesses and make informed decisions.
- **It is easy to switch to Xero** – there should be minimal cost for an SME to switch to Xero from another accounting system.

4 STRONG BUSINESS STRATEGY

Xero's strategy is to become a leading provider of SME online accounting solutions in its target markets. It intends to use the experiences of the consumer software market (based on Internet technology) and apply these to the SME market to create an internationally scalable business.

Key elements of its strategy include:

- Building the brand and business in New Zealand initially and expanding into the UK and Australia. The aggregate target market is large – the number of SMEs in these regions is around 5.8 million, split: UK, 4.3 million; Australia, 1.2 million; and New Zealand, 322,000.
- Focusing in each market on the key market segments which it believes, through its research and experience to date, are likely to be early adopters of its offering: technology companies, professional services firms (including accounting practices) and not-for-profit organisations.
- Strengthening its market presence by establishing and expanding national partnerships and alliances.
- Expanding its customer support capabilities which Xero believes will be a key differentiator for SMEs.

5 ACCEPTED NEW BUSINESS MODEL

Xero is an early adopter of the web-based business model that is technically known as software as a service ("SaaS"). This model is ideally suited to the needs of the large and fragmented SME market.

Rather than installing software on independent desktops or networks at each customer's location, Xero's software is made available online through a secure login. Importantly, the software does not require installation and therefore can be frequently modified and updated with minimal downtime for customers.

Xero's customers will pay a monthly subscription to use its web-based accounting system, rather than paying for an up-front software licence and then having to pay ongoing upgrade, maintenance and service charges.

The Directors believe that the SaaS model will enable Xero to benefit from having a centralised operating environment with lower infrastructure costs and a predictable revenue stream. The SaaS model should also provide Xero with a significant opportunity for long term profitability.

6 XERO HAS ALREADY ACHIEVED MOMENTUM

Since its establishment, Xero has:

- Raised capital of \$2.8 million from the founders, Directors and selected employees of Xero. It has also received \$100,000 in Government grants and has been awarded a further \$750,000 of Government funding to be drawn down over the next five years to assist with R&D and UK market entry. The funding received to date has enabled Xero to get its initial product offering market ready.
- Developed its core online accounting software product and the foundations for its operational systems and processes necessary to enable the business to scale internationally.
- Tested the product with more than 140 users since November 2006. Since starting to sell the product (in a limited release) since April 2007 Xero has attracted over 100 paying customers.
- Recruited a strong management team with the skills required to enable Xero to grow the business internationally.
- Established some key partnering relationships with retail banks, chartered accountancy firms and other businesses to help accelerate its customer penetration and market success.
- Been selected to represent New Zealand as a finalist in the worldwide Technium Challenge in Wales, UK in late May 2007.
- Developed the Xero brand.

7 THE OPPORTUNITY FOR XERO IS NOW

The Directors believe that Xero can create a strong market position for itself in the online accounting software market if it captures the opportunity that exists here and now. Xero has already recruited an experienced team, has a compelling business model, a product available for full market release in the second half of 2007, a developing brand and some key business relationships to help it succeed.

However, it needs to move quickly, with an appropriate level of capital, to establish its business in New Zealand and then credibly enter its targeted overseas markets.

THE DIRECTORS HAVE DECIDED TO RAISE THE CAPITAL NEEDED FOR THE FURTHER DEVELOPMENT OF XERO THROUGH A PUBLIC OFFER BECAUSE THEY BELIEVE IT IS THE MOST APPROPRIATE MEANS OF OBTAINING THE FUNDING REQUIRED TO ENABLE XERO TO EXECUTE ITS BUSINESS PLAN.

Another important benefit of Xero operating as a public company, with visible reporting and good governance structures, is that it should help instil confidence amongst Xero's customers about Xero and its offering. This should help to further accelerate the implementation of Xero's business plan.

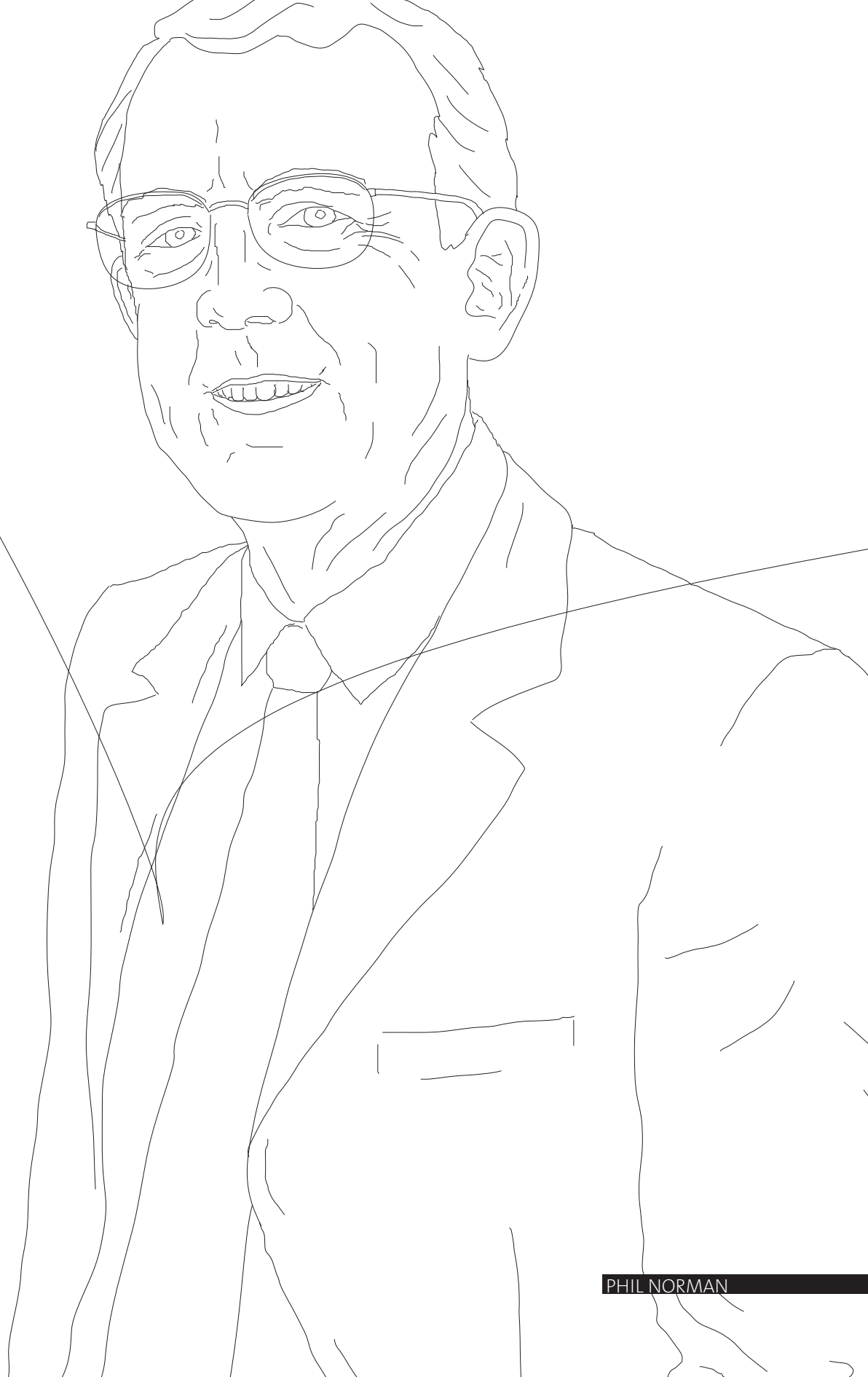
The Directors believe that if Xero were to remain a privately owned company based in New Zealand, without an appropriate level of funding and the profile and transparency which comes with being a public company, it would not be able to capitalise on the immediate international opportunity for Xero.

Xero is an early stage software business with no specific track record of success for its business or operations. Accordingly, please read all the information in this Offer Document, and talk to a qualified adviser that you trust before deciding whether or not to subscribe for Shares in Xero under this Share Offer. The principal risks of investing in Xero are set out on pages 76 to 77.

One of the main principles of investing money is to have a diversified portfolio of investments. Potential investors should carefully consider the size of their application relative to their other investments.

CHAIRMAN'S LETTER

11 MAY 2007



PHIL NORMAN

DEAR INVESTOR ON BEHALF OF THE DIRECTORS OF XERO, I AM PLEASED TO PRESENT YOU WITH THIS OPPORTUNITY TO INVEST IN A NEW ZEALAND TECHNOLOGY VENTURE.

From the outset Xero was established with the objective of growing internationally. It has a highly skilled team and an experienced board of directors. The CEO and co-founder, Rod Drury, is an accomplished and well-respected entrepreneur. Rod's track record shows that he has the ability to detect fundamental shifts in the Information and Communications Technology ("ICT") industry and then create software products that utilise new technologies. In the past, Rod has created businesses of significant value. His most recent success was the sale, in 2006, of his former email management software business, AfterMail, to Quest Software of the USA.

Xero has aspirations for international growth in targeted markets, but to realise its ambitions Xero needs the necessary capital resources to capture the market opportunity that exists for it right now.

Xero considered seeking private venture capital funding, but the pool of such funding available to growing technology businesses in New Zealand is relatively small. Accordingly, the Directors have decided to raise capital for the development of Xero, via a public flotation of the Company. We believe that the capital raised and the profile created by a public offer will greatly assist in the acceleration of Xero's business plan.

"THIS IS AN **EXCITING OPPORTUNITY** TO PARTICIPATE IN A HIGH-QUALITY, ENTREPRENEURIAL NEW ZEALAND SOFTWARE COMPANY THAT HAS THE POTENTIAL TO BECOME A SIGNIFICANT PLAYER IN ITS CHOSEN GEOGRAPHIC MARKETS."

We estimate around one third of the Shares being offered will be allocated to certain strategic parties including private investors, industry influencers, accountants, high net worth individuals and New Zealand institutions. The Independent Directors of Xero, including myself intend to subscribe, in aggregate, for 1.35 million Shares at the Offer Price.

The balance of the Shares under the Share Offer will be made available to clients of First NZ Capital and to any other Applicants.

This is an exciting opportunity to participate in a high-quality, entrepreneurial New Zealand software company that has the potential to become a significant participant in its chosen geographic markets. However, Xero is an early stage business, similar to a venture capital opportunity, and is, therefore, a high-risk investment. The Directors see Xero as a growth opportunity and do not expect the Company to be profitable for at least three years. There are risks that may impede Xero from achieving its growth aspirations. That said, the Directors and management of Xero are using their best endeavours to ensure that Xero's business plan and its milestones and targets are carefully thought through and are realistically set.

Full details of the Share Offer are set out in this Offer Document and it should be read carefully in its entirety before making an investment decision.

On behalf of the Directors, I commend this Share Offer to you and, if you do decide to invest, welcome you as a shareholder of Xero.

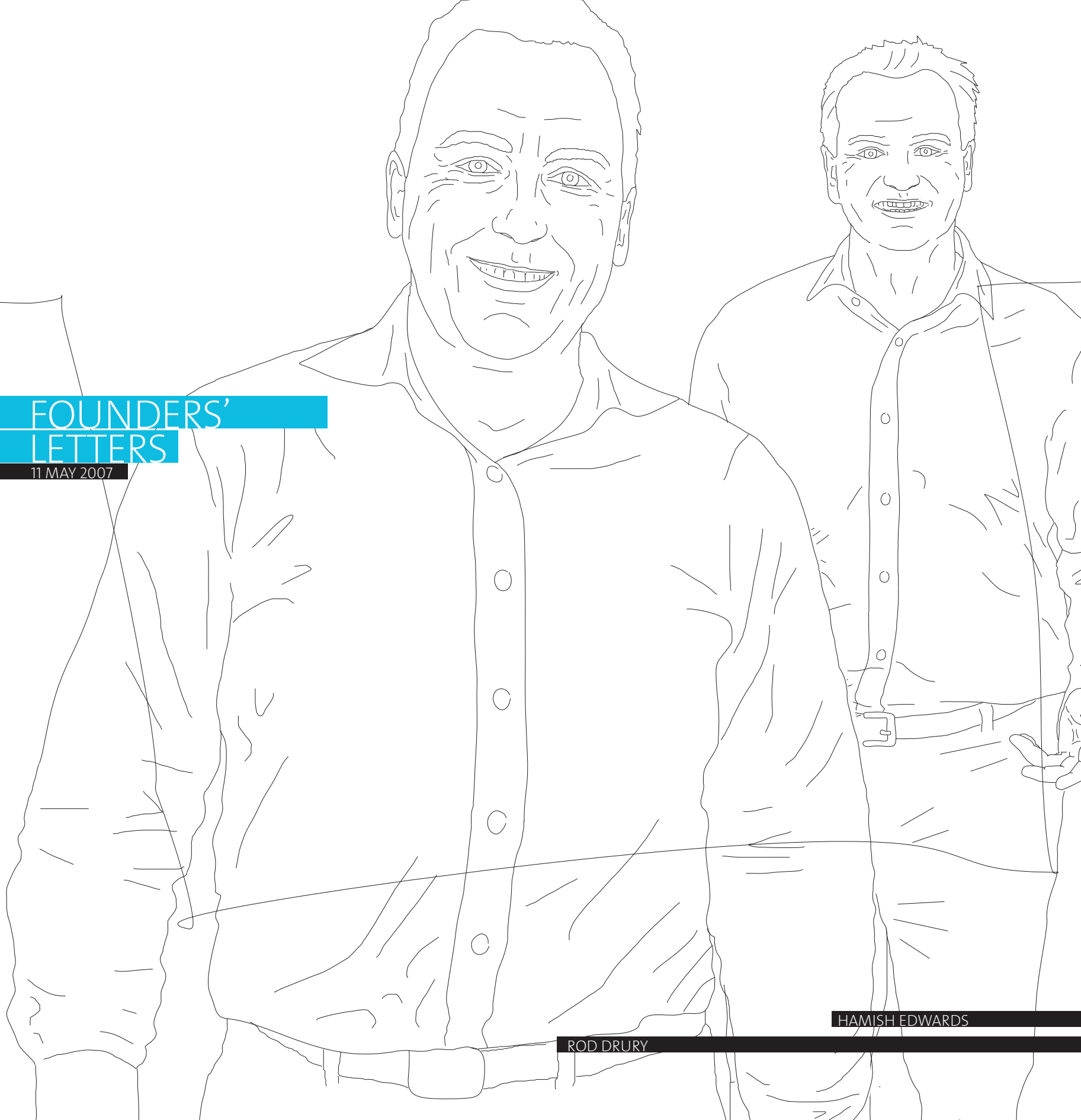
Yours sincerely

PHIL NORMAN
CHAIRMAN



FOUNDERS' LETTERS

11 MAY 2007



ROD DRURY

HAMISH EDWARDS

DEAR INVESTOR As an owner of several small businesses myself, it was obvious to me that there was not an accounting product available in the market that provided a daily focus on cash flow with the ease of use that most small businesses need. In my businesses, I place a high value on the input of advisers. It frustrated me how difficult it was to share the numbers with my accountant, Hamish Edwards, who acted as the Virtual CFO for AfterMail.

As a technologist, I have been watching new web development technologies evolve. The time is now right for a change that re-defines the economics of delivering business systems to small and medium sized enterprises.

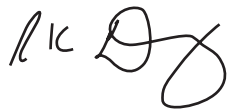
As an entrepreneur who has founded, built and sold a number of companies, I have been looking for an opportunity to build a long-term global business from New Zealand – a real example of New Zealand's knowledge economy. Web based SME accounting provides an opportunity to do this.

The decision to proceed with an IPO at such an early stage is not a decision we have taken lightly. However, the opportunity for Xero has arrived. Going public is the best path if we are going to credibly enter overseas markets with the resources it takes to be successful.

I hope you will join us on our journey.

Yours sincerely

ROD DRURY
FOUNDER AND CEO



DEAR INVESTOR Together, Rod and I decided to set out to re-define the ways accounting can work for small and medium sized enterprises. These organisations make up a high percentage of the number of businesses operating in most countries, employing, in some instances, up to two-thirds of the workforce.

Typically, these businesses are privately owned (often by the founder, their family or a small group of investors) and are often sensitive to shifts in their balance sheet and cash flow. Accordingly, the ability to monitor financial performance and plan is very important. Based on my own experience, businesses of this size generally do not have the tools or resources to tell them easily and quickly what they need to know about their financial position and performance.

With Xero, we have developed an accounting system that is connected to the business in real-time and is, therefore, able to tell business owners what they most need to know, when they most need to know it – simply, effectively and economically.

We believe we have developed an online accounting system that is versatile enough to be used by a range of businesses across the world.

We have already received a strong response in New Zealand, not just directly from potential SME customers, but also from accountancy firms and financial institutions, who we believe will become important advocates for Xero.

We hope you will choose to invest in Xero and share our vision to create an international software company.

We invite you to join us on this exciting journey.

Yours sincerely

HAMISH EDWARDS
FOUNDER AND CFO



“THE TIME IS NOW RIGHT FOR A CHANGE THAT RE-DEFINES THE ECONOMICS OF DELIVERING BUSINESS SYSTEMS TO SMALL AND MEDIUM SIZED ENTERPRISES.”

“WE HAVE DEVELOPED AN ACCOUNTING SYSTEM THAT IS CONNECTED TO THE BUSINESS IN REAL-TIME AND IS, THEREFORE, ABLE TO TELL BUSINESS OWNERS WHAT THEY MOST NEED TO KNOW.”





COLLABORATE

ADVISERS BECOME PROACTIVE PARTNERS
WITH ACCESS TO CUSTOMERS' REAL-TIME DATA,
MEANING LESS TIME COLLATING DATA AND
MORE TIME TO INTERPRET AND USE THE INFORMATION.

16 DETAILS OF THE SHARE OFFER

THIS OFFER DOCUMENT IS A COMBINED INVESTMENT STATEMENT AND PROSPECTUS IN RESPECT OF AN OFFER OF SHARES IN XERO LIVE LIMITED. THE FOLLOWING SECTION OUTLINES THE MAIN TERMS OF THE SHARE OFFER.

INVESTORS SHOULD ALSO REFER TO THE DETAILED INFORMATION OUTLINED IN THE SECTION HEADED “ANSWERS TO IMPORTANT QUESTIONS” ON PAGES 72 TO 79.

THE SHARE OFFER Xero is offering for subscription 15.0 million Shares under the Share Offer at an Offer Price of \$1.00 per Share with the ability to accept oversubscriptions of up to \$3.0 million (representing a further 3 million Shares at the Offer Price). Accordingly, Xero is seeking to raise up to \$18.0 million, inclusive of oversubscriptions.

The Shares are being offered to New Zealand resident institutional, professional and retail investors.

MINIMUM OFFER AMOUNT The minimum amount which must be raised by Xero through the issue of new Shares under the Share Offer is \$10.0 million, being 10 million Shares at the Offer Price. If valid acceptances for the minimum subscription amount are not received by the Closing Date, Xero will withdraw and cancel this Share Offer, in which case all application monies received will be refunded (with interest, if any) within six business days after the Closing Date.

SHARE OFFER NOT UNDERWRITTEN The Share Offer is not being underwritten.

ALLOCATIONS Approximately 5.0 million Shares (representing one third of the number of Shares being offered under the Share Offer) have been reserved for allocation to certain private investors, industry influencers, accountants, high net worth individuals and New Zealand institutions.

In addition, the Independent Directors of Xero intend to subscribe, in aggregate, for 1.35 million Shares made under the Share Offer at the Offer Price. The Independent Directors do not guarantee nor undertake any liability in respect of the Shares.

The balance of the Shares under the Share Offer, being approximately 8.65 million Shares, will be made available to clients of First NZ Capital and to any other Applicants.

The Joint Organising Sponsors reserve the right to make further allocations at their discretion.

SELLING RESTRICTIONS ON EXISTING SHAREHOLDERS

Each of the Existing Shareholders in Xero is restricted from disposing of the legal or beneficial ownership of the Shares held or controlled by them as at the date of this Offer Document for a period of 12 months from the date that Xero's Shares are first quoted on the NZSX.

This restriction is contained in a deed of embargo entered into by each Existing Shareholder and Xero. The deeds provide that the Existing Shareholder may only dispose of their legal or beneficial ownership of those Shares within the 12 month embargo period with the approval of Xero (and in respect of Shares held, respectively, by trusts of Rod Drury and Hamish Edwards, with the approval of Xero and the Lead Broker) or to an offeror who has made a successful full or partial takeover offer to all Shareholders under the Takeovers Code.

REASONS FOR THE IPO The Directors have decided to raise the capital needed for the further development of Xero's business through a public offer because they believe it is the most appropriate means of obtaining the funding required to enable Xero to execute its business plan.

This Share Offer will:

- Provide Xero with the funding required to grow its business in New Zealand and to gain initial market entry in the UK and Australia.
- Provide visible reporting which should show that Xero is a well capitalised company, with committed shareholders, and long-term growth ambitions as a public company. This should help instil confidence amongst Xero's customers about its offering and help to further accelerate the implementation of Xero's business plan.

- Provide Xero with the ability to base its business in New Zealand and create an opportunity that is attractive to international talent, including high quality New Zealand IT professionals.
- Allow Xero to utilise public company governance structures to create a high-quality reporting and control environment, and provide a good base from which Xero can pursue the international growth of its business.
- Further raise Xero's profile.

The Directors believe that if Xero were to remain a privately owned company based in New Zealand, without an appropriate level of funding and the profile and transparency which comes with being a public company, it would not be able to capitalise on the immediate international opportunity for Xero that exists right now.

USE OF PROCEEDS FROM THE IPO The proceeds from this Share Offer will be used by Xero over the next three years to:

- Grow customer numbers in New Zealand with the aim of firmly establishing Xero as New Zealand's leading online accounting system provider to SMEs.
- Recruit additional staff to grow the business, including personnel in the UK and Australia.
- Invest in the operational infrastructure required to scale the business.
- Provide working capital to sustain the operations of the business while Xero builds monthly recurring revenue streams.

Although it is intended that the proceeds from the IPO will be used for the above purposes, the Directors are aware that Xero, like any early stage company, needs to be flexible with its strategies, plans, targeted milestones, operations and affairs so that it can, quickly and at short notice, respond to change, such as changes in the accounting or software industries, its competitive environment and insights it gains about its operations, costs and investment requirements as the business grows. Accordingly, Xero's strategies, plans, targeted milestones, operations and affairs, as described in this Offer Document, are very much subject to change as Xero seeks to evolve from a start-up company into an established business.

The Directors believe that the amount raised under this Share Offer will enable Xero to pursue its current business strategy. However, events such as a change in strategy, financial performance not meeting expectations or a desire to accelerate its expansion plans may require Xero to raise further capital in the future.

SUMMARY OF THE SHARE OFFER STRUCTURE

Opening and Closing Dates The opening date of the Share Offer is 14 May 2007 and the Closing Date is 30 May 2007. Xero may vary these dates at its discretion.

Pricing The Offer Price for the Shares is \$1.00 per Share.

How to Apply Applications for Shares must be made on the Application Form contained in or accompanying this Offer Document.

THIS IS AN IMPORTANT DOCUMENT. IF YOU ARE IN ANY DOUBT AS TO HOW TO DEAL WITH THIS OFFER DOCUMENT, PLEASE IMMEDIATELY CONTACT A PRIMARY MARKET PARTICIPANT, AN ACCOUNTANT, OR A FINANCIAL ADVISER.

Application Forms must be completed in full and submitted in accordance with the instructions set out below and on the page preceding the Application Form.

An Application will constitute an irrevocable offer by the Applicant to subscribe for the number of Shares specified in the Application Form, or such lesser number of Shares as may be allocated to it, on the terms and conditions set out in this Offer Document and the Application Form. By submitting an Application Form, Applicants agree to be bound by those terms and conditions and the Constitution of Xero.

Minimum Applications Applications under the Share Offer must be made for a minimum of 1,000 Shares and, thereafter, in multiples of 500 Shares.

Application Monies All Applications must be accompanied by payment in full for the total number of Shares applied for at the Offer Price.

Cheques must be drawn on a registered New Zealand bank, must be crossed "Not Transferable" and should be made payable to "Xero Share Offer".

Application monies will be banked upon receipt into a designated bank account and held on trust pending the allocation of Shares. The banking of such monies does not constitute confirmation of the allocation of any Shares to the successful Applicants.

Applicants should ensure that sufficient funds are held in the relevant account to cover the cheque which accompanies their completed Application Form. Allocations of Shares will be made on the assumption that an Applicant's cheque will clear. If an Applicant fails to make payment for the Shares under the Share Offer, or an Applicant's cheque fails to clear, then the allocation of Shares to that Applicant may be cancelled.

Where and When to Lodge Applications

Applications must be received by Link Market Services Limited, PO Box 91976 Auckland 1142 (Level 12, 120 Albert Street, Auckland) by 5.00pm on 30 May 2007.

Applications through the Lead Broker and other Primary Market Participants must be lodged with the Lead Broker or other Primary Market Participant, in sufficient time to reach Link Market Services by no later than 5.00pm on 30 May 2007.

Xero may elect to close the Share Offer early, or extend the Share Offer, or accept late Applications either generally or in particular cases. The Share Offer may be closed at any earlier date and time, without further notice. Applicants are, therefore, encouraged to submit their Applications as early as possible.

Allocation Policy The allocation of Shares to Applicants will be at the discretion of Xero. Xero may, at its discretion, reject any Application (in whole or part) without giving any reason.

Notification of Allocations Applicants should ascertain whether Shares have been allocated to them under this Share Offer before trading in the Shares. Applicants will be able to do so from 9.00am on 5 June 2007 by calling the Share Registrar, Link Market Services, on (09) 375 5998. Applicants will also be able to confirm their allocation (if any), through the Primary Market Participant from which they sought or received their allocation of Shares.

Applicants will be sent notices of allocation on 5 June 2007. Any refunds for unsuccessful applications for Shares will be posted no later than 8 June 2007.

An Applicant does not have any interest in, or right to entitlement to, any Share under this Share Offer unless and until, and then only to the extent that, Shares are allotted to that Applicant by Xero.

If you sell Shares before receiving an initial allotment notice, you do so at your own risk, even if you obtained details of your holding through the Share Registrar or confirmed your allocation through a Primary Market Participant or otherwise. Neither Xero nor any of its Directors, officers, employees,

consultants, agents, partners or advisers accepts any liability or responsibility should any person attempt to sell or otherwise deal with Shares before the allotment notice showing the number of Shares issued to the Applicant is received by the Applicant for those Shares.

Refunds Money received in respect of Applications that are declined in whole or in part will be refunded in whole or in part (as the case may be) without interest. Refunds for unsuccessful Applications will be posted within five days after the allotment date of the Shares.

Selling Shares on the NZSX Xero will not issue Share certificates to successful Applicants. Xero will instead participate in the FASTER system. FASTER is a comprehensive system for recording and completing the transfer of securities listed on the NZSX. FASTER provides for paperless settlement and full electronic transfer of securities.

BROKERAGE No brokerage or commission is payable by Applicants for Shares issued to them under the Share Offer.

Xero will pay a fixed brokerage fee of \$240,000 to First NZ Capital Securities Limited. No brokerage will be paid by Xero other than the brokerage fee payable to First NZ Capital Securities Limited.

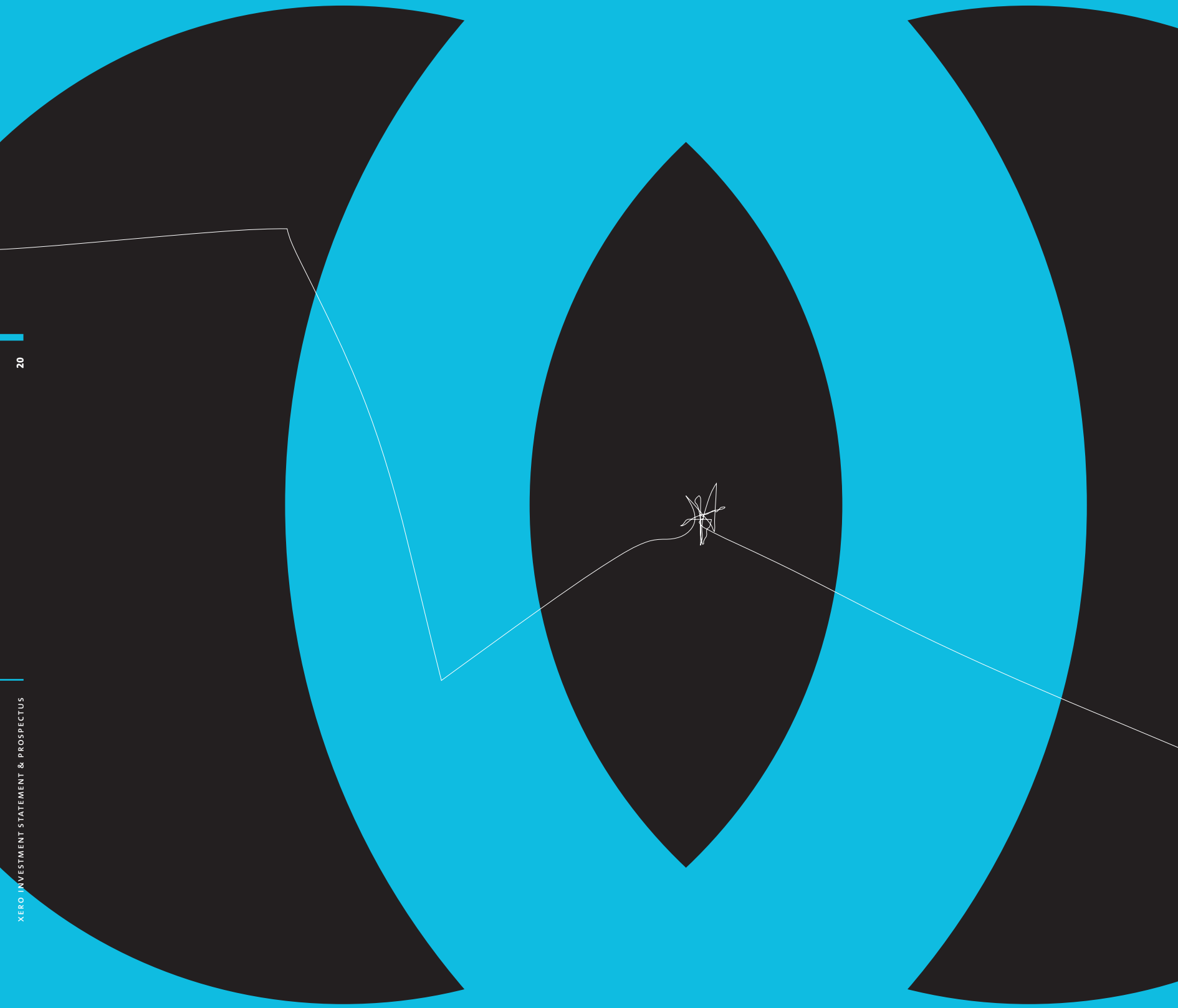
In addition, First NZ Capital Securities Limited will receive a management fee of \$100,000 in respect of the Share Offer by way of the issue of Shares by Xero under the Share Offer. First NZ Capital Securities Limited does not guarantee or undertake any liability in respect of the Shares.

NEW ZEALAND EXCHANGE LISTING Application has been made to NZX for permission to list the Shares, and all the requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document. Initial quotation of the Shares is expected to occur on 5 June 2007. NZX has authorised Primary Market Participants to act on the Share Offer.

OVERSEAS INVESTORS The Share Offer is only being made to members of the public in New Zealand. No person may offer, invite, sell or deliver any Shares or distribute any documents (including this Offer Document) to any person outside New Zealand.

Unless otherwise agreed with Xero, any person or entity applying for Shares in the Share Offer will, by virtue of such Application, be deemed to represent that he, she or it is not in a jurisdiction that does not permit the making of the Share Offer or an invitation of the kind contained in this Offer Document and is not acting for the account or benefit of a person within such a jurisdiction. Neither Xero nor any of its Directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Share Offer.

IMPORTANT DOCUMENT If you are in any doubt as to how to deal with this Offer Document, please immediately contact a Primary Market Participant, an accountant, or a financial adviser.





CONNECTED

XERO IS ACCESSIBLE ANY TIME THROUGH ANY INTERNET CONNECTION IN THE WORLD. XERO'S LOGIN IS SECURE AND ALL DATA IS AUTOMATICALLY BACKED UP.

22 XERO'S MARKET
OPPORTUNITY
& COMPETITIVE
POSITIONING

“IT IS TREMENDOUS TO
SEE A NEW ZEALAND
COMPANY SUCH AS XERO
BUILDING A BUSINESS ON
NEW ZEALAND CREATIVITY
AND INGENUITY, AND
WITH A BIG ASPIRATION –
TO BECOME A
‘MULTI-NATIONAL’ ”

CHRIS LIDDELL
CFO – MICROSOFT



DEVELOPMENTS IN TECHNOLOGY INNOVATION

There are few industries where the dynamics change as quickly and as often as in the ICT industry. In the space of around 20 years, the ICT industry has moved from expensive mainframe computing, to mini computers, to PC's, to the Internet. Software has migrated from central computing, to client server to now starting to become web-based.

Each major shift provides opportunities for those who identify the trends and deliver products to the market early. Xero should have an early mover advantage in the provision of Internet-based accounting systems if it moves now.

The software as a service model ("SaaS") that Xero has adopted provides an innovative means of supplying software to a large fragmented market. It is a model that is validated by international companies such as Salesforce.com with its customer relationship management ("CRM") software, 37signals with its project coordination tool called Basecamp, and by Concur with its travel and expense management software.

At the same time, the distributive power of the Internet has enabled global brands to develop in the consumer technology space that have attracted strong customer support. MySpace (social networking), YouTube (video sharing), Skype (social networking), including VOIP) and Flickr (photo sharing), all demonstrate how a large customer base can be developed at a low cost over the Internet through accelerated online and word of mouth marketing. The network effects of "group forming networks" and "user generated content" have seen rapid growth of simple applications over the Internet.

The Directors believe that the software needs of SMEs are now moving closer to consumer software, and away from the traditional enterprise software and the existing SME technology products generally available today. Consumer software requirements are simple – they are mass market by nature, have low customisation, are easy to implement, easy to use, easy to learn, easy to try and easy to buy. Xero believes that SMEs don't want to be concerned with technical issues such as backups, upgrades and configuration.

Based on the observation of these trends, the Directors believe Xero's SaaS business model is appropriate for, and will be attractive to, SMEs.

This belief is supported by the findings of Gartner Inc. (a leading international technology research company). Gartner Inc. estimates that the SaaS market represented approximately 5% of business software in 2005, but by 2011, around 25% of new business software will be delivered through the SaaS model. Gartner Inc. further estimates that while the worldwide SaaS market had reached US\$6.3 billion in value in 2006, it is forecast to grow to US\$19.3 billion by the end of 2011.²

Prior experiences in both consumer technology and the enterprise software sectors by various members of Xero's management team have enabled Xero to tailor its product for SMEs.

XERO'S SIGNIFICANT ONLINE ACCOUNTING MARKET OPPORTUNITY Xero represents an opportunity to invest in a company that intends to target selected international SME markets. SMEs are the most common form of business organisation. In OECD countries, they constitute over 90% of all businesses by number.³

Unlike many other software systems, which are largely optional, accounting systems are almost a necessity for SMEs. Accounting systems should assist in making key business decisions and reducing the burden of administrative compliance.

Xero's initial strategic focus will be on three countries – New Zealand, the UK and Australia. It is estimated that the number of SMEs in these regions is around 5.8 million, split as follows: UK, 4.3 million⁴; Australia, 1.2 million⁵; and New Zealand, 322,000.⁶ In each case, Xero's initial focus will be on key market segments which it believes, through its research and experience to date, are likely to be early adopters of its offering: technology companies, professional services firms (including accounting practices) and not-for-profit organisations.

In New Zealand the adoption of the Internet is gaining traction. In March 2007, around 1.9 million New Zealanders aged 15 or older used the Internet, viewing around 3.6 billion pages of content. The average Internet user went online every other day and spent a total of 20.4 hours online during the month.⁷

Xero commissioned Ernst & Young to undertake research into the finance and accounting systems market in New Zealand. Based on Xero's knowledge, its own research and analysis, and the results of Ernst & Young's research, Xero believes that the value of the market for finance and accounting systems by businesses in New Zealand with less than 100 employees is worth at least \$260 million per annum. Xero also estimates that between 10% and 30% of such businesses do not currently have access to accounting systems. This equates to a market potentially worth up to \$90 million.

² SOURCE: NEWS RELEASE BY GARTNER INC., 3 OCTOBER 2006. ³ SOURCE: OECD SME AND ENTREPRENEURSHIP OUTLOOK – 2005 EDITION. ⁴ SOURCE: UK DEPARTMENT OF TRADE & INDUSTRY, NEWS RELEASE, 31 AUGUST 2006. THE DEFINITION OF SMES IN THE UK REFERS TO ORGANISATIONS WITH LESS THAN 50 EMPLOYEES. XERO'S DEFINITION OF SMES FOR THE NEW ZEALAND AND AUSTRALIAN MARKETS REFERS TO ORGANISATIONS WITH LESS THAN 20 EMPLOYEES. ⁵ SOURCE: SME BUSINESS FORUM 2007, AUSTRALIA. ⁶ SOURCE: NZ MINISTRY OF ECONOMIC DEVELOPMENT REPORT – SMES IN NEW ZEALAND: STRUCTURE AND DYNAMICS, MAY 2006. ⁷ SOURCE: PRESS RELEASE BY COMSCORE, 26 APRIL 2007.

THE SOFTWARE AS A SERVICE MODEL THAT XERO HAS ADOPTED PROVIDES AN INNOVATIVE MEANS OF SUPPLYING SOLUTIONS TO A LARGE FRAGMENTED MARKET.

There are estimated to be three times as many SMEs in Australia and over 13 times as many in the UK, as in New Zealand. The Directors therefore believe that there is a significant market opportunity in these targeted markets. This belief is supported by the size of some of the larger competitors that address the accounting software market.

COMPETITIVE LANDSCAPE The market for accounting systems for the SME market is large, but fragmented.

Whilst there are established providers of traditional accounting software packages in Xero's target markets, the Directors are not aware that any of the larger competitors to Xero have completely adopted a SaaS model. The Directors believe that the products offered by Xero's most likely potential competitors are predominantly focused on traditional methods of software delivery encompassing an up-front licence fee, software upgrades and ongoing maintenance and services charges. SaaS is a fundamental shift from how software is traditionally delivered; it requires new technology architectures and the nature of customer relationships are different.

The Directors believe that larger competitors are not as well placed to completely change their business models to the SaaS model which Xero offers. If so, this situation provides a good opportunity for Xero as a fast moving, unencumbered new entrant, operating from a low cost of sale environment to firmly establish itself in the marketplace.

The leading providers of accounting software packages tend to be large international companies, including MYOB (in Australia), Sage (in the UK) and Intuit (in the USA). These companies are listed on stock exchanges in their respective countries. Some of their financial metrics are as follows:

METRICS OF LEADING ACCOUNTING SOFTWARE PROVIDERS

Company	Market capitalisation as at 1 May 2007	Balance date	Annual revenue recorded from last full year accounts ⁸
MYOB	A\$473 million	31 December 2006	A\$182.3m
Sage	£3.4 billion	30 September 2006	£935.6 million
Intuit	US\$9.7 billion	31 July 2006	US\$2.3 billion

Some further information on MYOB, Sage and Intuit follows⁹:

MYOB – founded in 1991, MYOB is listed on the Australian Stock Exchange. It has operations in nine countries, including Australia, New Zealand, Asia and the UK. MYOB's historic focus has been on offering accounting packages to businesses with less than 20 staff, but it has recently been expanding into the medium segment, targeting businesses employing between 20 and 200 staff.

MYOB's client base includes more than 500,000 businesses. MYOB's acquisition, in 2004, of Solution 6, boosted its offering to include practice management software that is used by over 10,000 accounting firms.

MYOB has established MYOB OnDemand, which is the exclusive Australasian distributor of the NetSuite, Inc. ("NetSuite") range of online business applications. NetSuite is a USA based company providing hosted business management systems and has more than 9,000 customers worldwide. NetSuite's applications include accounting, enterprise resource planning ("ERP"), CRM and eCommerce solutions. The investors in MYOB OnDemand include MYOB and some third parties.

MYOB has adopted a strategy that includes growth by acquisition and since 2000 has completed 10 acquisitions.

Sage – founded in 1981, Sage is listed on the London Stock Exchange, forming part of the FTSE 100. Originally focused on the UK market, Sage has replicated its model in a number of markets around the world, including New Zealand and Australia.

Sage's product portfolio was initially focused on accounting software but as the business has grown, it has increased the scope of its offering to encompass other business solutions such as payroll, human resources, customer relationship management ("CRM"), merchant services and medical practice management software and services. Sage's main focus is on the small and mid-market business software market, with companies that employ less than 100 staff, although it also has offerings for larger businesses. It has grown its customer base from around one million customers in 1998 to over five million customers in 2006.

The Directors understand that Sage has released an online product, which is a hosted version of a Sage desktop product. This is accessed using Citrix software installed on the customer's computer and therefore this offering does not completely adopt a SaaS model.

Sage has adopted an acquisition strategy to expand its business outside the UK and has acquired 16 businesses in the last five years.

Intuit – founded in 1983, Intuit is listed on NASDAQ. It has offices in the USA, Canada, the UK, India and other locations. Intuit's offering includes the provision of business and financial management solutions for SMEs, financial institutions (including banks and credit unions), consumers and accounting professionals. Its products and services include QuickBooks, Quicken and TurboTax software. There is an online version of the QuickBooks product. The Directors understand that the software is installed on the customer's computer and requires Microsoft Windows, Internet Explorer and an ActiveX component download.

Intuit has over 17 million customers worldwide. In New Zealand and Australia, Intuit's products are distributed by an Australian company, Reckon Limited. These products include Quicken, which is targeted at personal use customers and QuickBooks, which is Intuit's product for SMEs.

Intuit Inc. has made 14 significant acquisitions since 2000.

There are many other companies already providing a range of accounting software products in New Zealand, the UK and Australia. However, many of these companies have legacy products with small installed customer bases.

Examples of private companies in New Zealand offering products to the marketplace include BankLink Limited, MoneyWorks NZ Limited and Plusfactor Solutions Limited.

The Directors are also aware that there are many other companies who could potentially compete with Xero in the SME market. For example, SAP, Oracle and Microsoft also offer accounting software packages to the international marketplace. However, the Directors understand that the core focus of these companies is predominantly on businesses with more than 50 employees, although Microsoft already has an offering tailored to the SME market in the USA. Additionally, Xero may face competition from competitors of which the Directors are not currently aware, or from new competitors in the future.

The potential response of any of Xero's competitors to Xero's online offering is unknown and may impact on Xero's business and growth prospects.

XERO'S COMPETITIVE POSITIONING The SaaS model adopted by Xero is a fundamental change from the existing providers of accounting software applications. This creates a good opportunity for Xero, as a fast moving, new entrant unencumbered with legacy applications and business models.

The Directors believe that Xero can create a strong market position for itself in the online accounting software sector if it captures the opportunity that currently exists. Xero has already recruited an experienced team, has a compelling business model, a product available for full market release in the second half of 2007, a developing brand and some key business relationships to help it succeed.

However, it needs to move quickly with an appropriate level of capital to establish its business in New Zealand and then credibly enter its targeted overseas markets.

In the markets that Xero proposes to target, the Directors believe that Xero will be the first public company completely focused on a web based, SaaS offering for SME accounting.



SIMPLICITY

XERO HAS BEEN DESIGNED FROM THE GROUND UP WITH CUSTOMERS AND THEIR ADVISERS IN MIND. IT'S INTUITIVE AND IT'S BUILT TO PERFORM.

ABOUT XERO

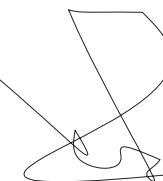
ACCOUNTING FOR SUCCESS Xero provides an online accounting system that provides SMEs with a clear picture of the money that flows in and out of their businesses, helping them maintain an accurate picture of their financial situation at all times via the Internet. Using Xero, SMEs can import their bank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

Xero's product has been designed to output screen sized pages and work acceptably on broadband, dial up and mobile data speeds.

The Xero system currently includes features such as bank transaction importing, a cashbook, a general ledger, invoicing, accounts receivable, accounts payable, GST, financial reporting and management of expense claims. The system is currently targeted at businesses and organisations with less than 20 employees but, in due course, is intended to be able to support enterprises with up to 50 and more employees.

There is an active roadmap of new features and product enhancements to be developed and released.

Since November 2006, Xero initiated a pre-release phase with 140 live users to ensure that, as each feature of the software was completed, it met the requirements of SMEs. Upon successful completion of this pre-release phase, Xero has admitted more than 100 paying customers since 1 April 2007 as part of a limited release while it builds further operational capability. Further paying customers will be accepted during the next few months. It is expected that sufficient operational capability, including sales, marketing and customer support, will be in place in August 2007 to enable an unconstrained formal launch of the product in New Zealand.



With minimal marketing to date, Xero has developed a pipeline of potential customers and confirmed the operational capability of, and the demand for, the Xero product.

XERO'S PRODUCT The pictures overleaf provide an illustration of Xero's product.

KEY BENEFITS OF XERO'S PRODUCT OFFERING

Xero's accounting system is different to most installed SME accounting systems currently available in the marketplace in the following important ways:

- **It is easy to use** – limited training is required and the product is customer friendly. It is also built to save the SME time so it can spend more time managing and running its business and less time on accounting matters.
- **It is available online** – there is no software to install. As with online banking, Xero is accessible any time through any Internet connection in the world. Xero's login is secure, it is insulated from viruses and spyware and all data is automatically backed up.
- **It is cost effective** – a pay as you go and pay as you grow pricing model. It is comparatively inexpensive, requires no server, no backups, minimal training, low cost support, no data transfer delays or synchronisation issues, and provides automatic software upgrades for customers.
- **It maximises access to advisers** – enables an SME to easily share information with its advisers. An SME's bookkeeper, accountant, and other advisers can access information any time, anywhere to help provide real time advice.

“THE XERO PRODUCT WILL CHANGE THE WAY CHARTERED ACCOUNTANTS WORK WITH THEIR CLIENTS – WHETHER IT’S TECHNICAL ASSISTANCE OR BUSINESS ADVICE. USING XERO, CHARTERED ACCOUNTANTS WILL HAVE ACCESS TO TIMELY AND RELEVANT INFORMATION UPON WHICH THEY CAN BUILD A RELATIONSHIP BASED AROUND VALUE TO THEIR CLIENTS RATHER THAN BEING GLORIFIED NUMBER CRUNCHERS.”

ROBERT CROSS

DIRECTOR – ‘BIG FOUR’ ACCOUNTING FIRM

• **It assists decision making** – provides immediate visibility of important information (such as real time cash flow information) for SMEs to run their businesses and make informed decisions.

• **Continuous innovation** – Xero can continually innovate its software product and be driven by customer requirements and competitor movements. Innovations can be built into the system without having to rollout an upgrade or installation to users and without disrupting the customer’s use of the system.

• **It is easy to switch to Xero** – there should be minimal cost for an SME to switch to Xero from another accounting system.

Overall, Xero should improve an SME’s business by assisting with the quality and timeliness of information and by providing best practice guidelines.

For accountants, Xero allows greater efficiency so the adviser can handle more customers and build the ‘trusted adviser’ relationship, creating the opportunity to add value for its clients.

Dashboard

Getting Started with Xero

These are some common ways to start using Xero...

- ▶ [Watch the "Getting Started" tour](#)
- ▶ [Invite other users, such as your accountant, to access your accounts in Xero](#)
- ▶ [Set up a Bank Account to do bank reconciliations and cash transactions](#)
- ▶ [Fill out an Expense Claim](#)

Bank Accounts

[Go to Banking >](#)

ASB ASB Cheque acc

[Manage Account ▾](#)

You have no statement lines to reconcile at this time.

[Import Statement](#)

Last import **3 days ago**

Current Reconciled Balance
-5,920.65



Account Balance for the past 7 days

kiwibank Kiwibank Online call acc

[Manage Account ▾](#)

You have no statement lines to reconcile at this time.

[Import Statement](#)



XERO'S ORGANISATION STRUCTURE As at 30 April 2007, Xero employed 27 staff (including its Founders and executive directors, Rod Drury and Hamish Edwards).

As a company whose business is based on intellectual property, human capital is Xero's most important asset. Having owned and managed a number of successful businesses, the Founders of Xero have broader objectives than creating a team to build a successful business. These include:

- A desire to create a sustainable and international business operating from New Zealand.
- Investing up front in the management team to create the foundations for pursuing international success.
- Providing New Zealand's best IT professionals with an opportunity to work in an international business based in New Zealand, as well as attracting new international talent – Xero can become an example of what New Zealand could offer as a centre of IT excellence.

With a track record for success, the founders have managed to attract excellent talent, both from New Zealand and overseas.

Xero has established a UK Advisory Board of senior UK executives to assist with Xero's market entry strategy into the UK market. They are not Directors of Xero.

XERO'S BUSINESS MODEL Xero's adoption of the SaaS model provides a cost effective way to deliver an accounting system that is focused on the SME market, is robust, is internationally scaleable and offers ongoing customer support. The SaaS model is becoming recognised internationally as a method of supplying otherwise expensive technology solutions to SMEs.

Hide Getting Started ✕

To Do Invoices...

- ▶ Add your Contact Details
- ▶ Add your Financial Settings
- ▶ Raise an invoice in Accounts Receivable
- ▶ Add an invoice to Accounts Payable

Accounts Watchlist

Go to Chart of Accounts >

What's this?

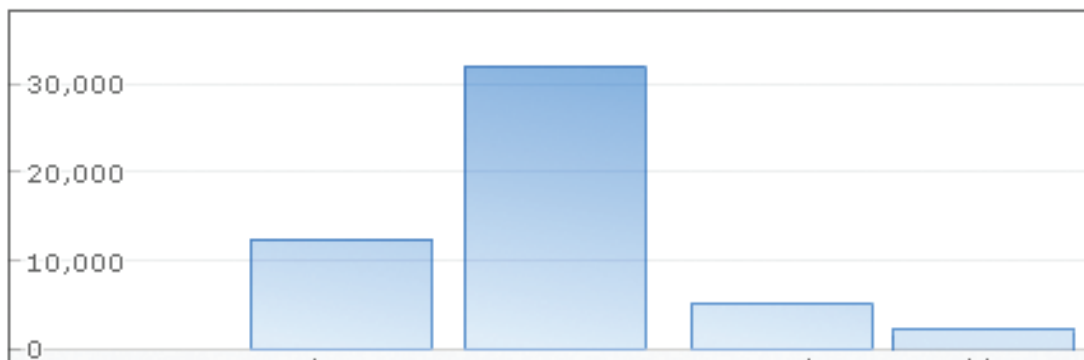
Sales (202)	5,230.50	Office Expenses (425)	186.00
Advertising (289)	12,200.00	Unpaid Expense Claims (802)	13.00

Money Coming In

Go to Accounts Receivable >

[+ Add Receivable Invoice](#)

What's this?



SaaS suits the frequent legislative changes common in business environments. Such changes are a major issue currently on the agenda for businesses in Australia.

US-based salesforce.com, Inc. is perhaps the best-known international example of the SaaS model. It allows users to access its sales force automation software product in return for a fixed monthly fee. salesforce.com, Inc. was founded in 1999 and is listed on the New York Stock Exchange. Its business model has helped it grow quickly; for the year ending 31 January 2007 it recorded revenues of \$US497 million (an increase of over 60% from the previous corresponding period)¹⁰ and as at 1 May it had a market capitalisation of \$US4.7 billion. While Xero's offering is focused on online accounting software, rather than sales force automation software, the business models are similar.

One of the advantages of the SaaS model is that once an installed customer base exists, it provides a degree of predictability to Xero's revenue stream. Other key advantages for Xero include:

- Low infrastructure costs and continuous innovation – all development and maintenance, and many customer queries, can be undertaken centrally in New Zealand, even though it is anticipated that Xero's customers will be spread throughout New Zealand, Australia and the UK. Innovations can be built into the system without having to rollout an upgrade or new installation, and without disrupting the customer's use of the system.
- Reduced customer acquisition costs – the SaaS model will enable Xero to use technology to eliminate impediments to scale, thus reducing customer acquisition costs.

CUSTOMER SERVICE – A KEY DIFFERENTIATOR

FOR SMES A key determinant of Xero's success will be its customer-care model. Market research has indicated support is a key criteria for SMEs. Therefore, Xero proposes to adopt the following three ring support model which maximises customer support while limiting resource demands on Xero:

- First – developing a customer support community using online forums. This model has been adopted by Microsoft and provides SME owners with free support for common questions.
- Secondly – customers with advisers will be initially directed to their adviser for support queries. In turn, Xero will support the advisers with training and second level support.

• Thirdly – customers can contact Xero directly by email to lodge a phone support call request. Xero will communicate electronically with customers about when they can expect a call and then respond to that request. There may also be a premium telephone support option. Customers signing up with Xero will undertake a web-based tutorial that will explain how to use the system and access the support forums.

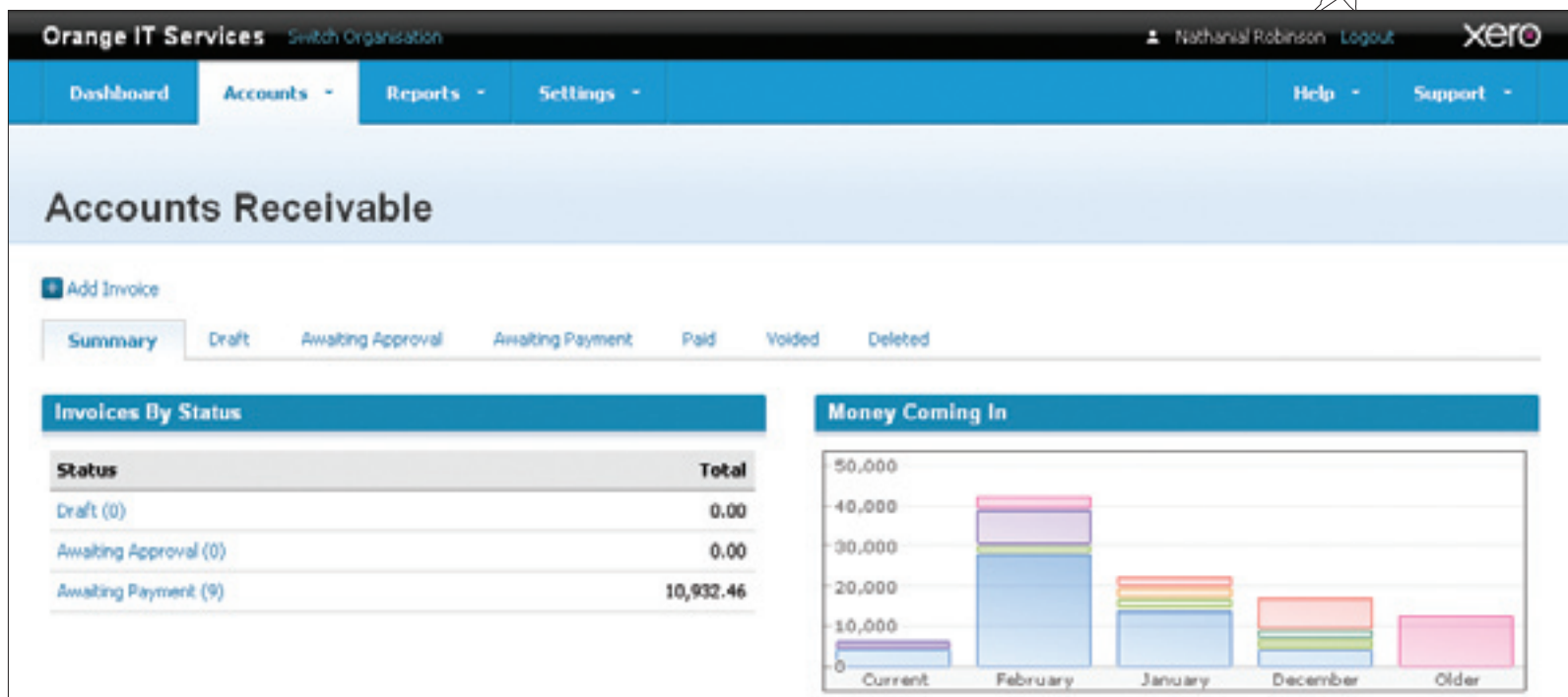
Xero currently has a customer support team based in Wellington. It intends to establish local customer support teams in each jurisdiction in which it establishes its business, leveraging off the New Zealand support knowledge base. This should allow Xero to provide extended hours support coverage to its international customer base.

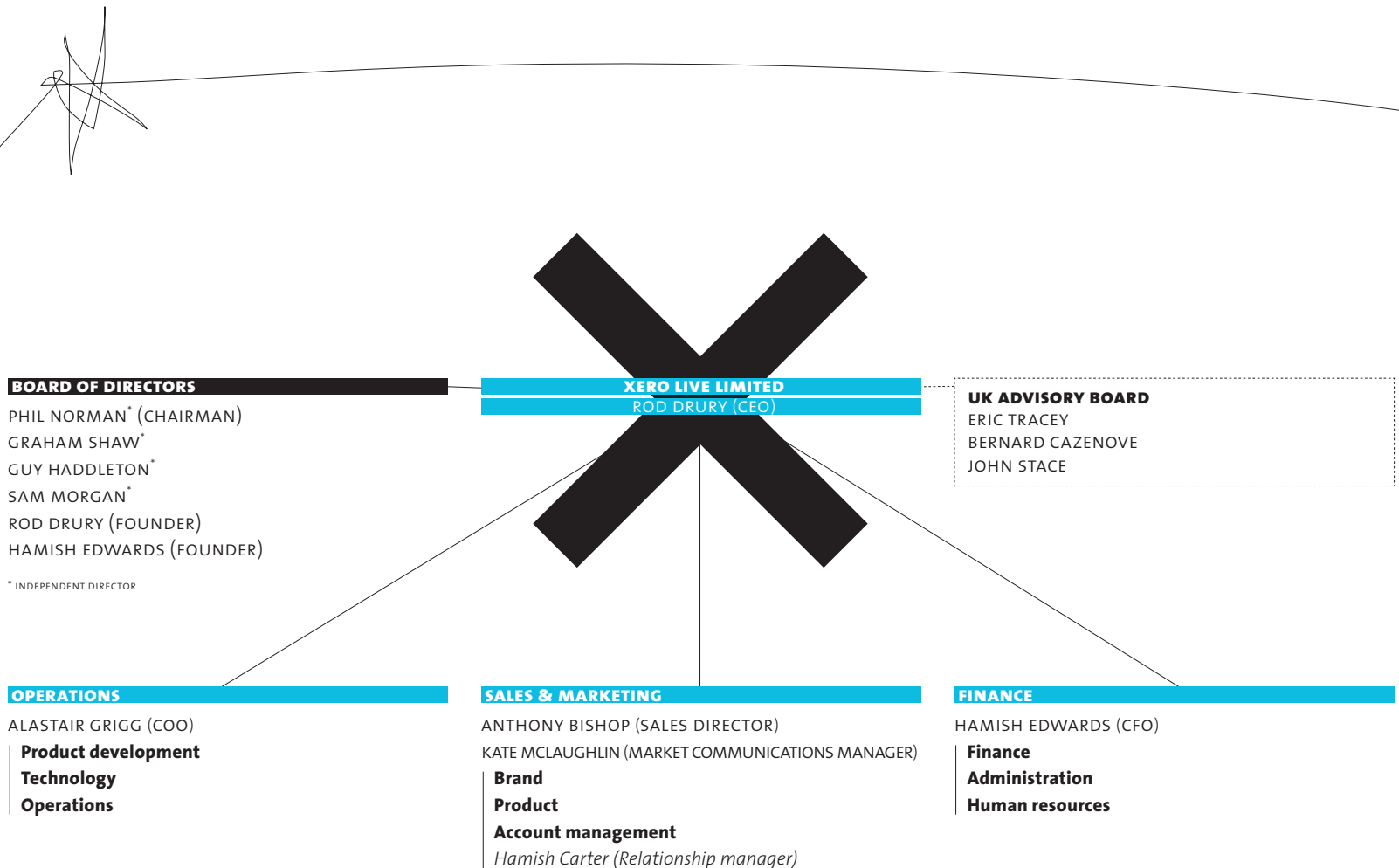
XERO'S GO-TO-MARKET STRATEGY Xero's go-to-market strategy is a combination of direct online sales and alliance partnerships.

Xero intends to establish its operating capacity, develop processes for managing scale and refine its marketing approach in the New Zealand market before applying this to the UK and Australian markets.

Xero also plans to recruit staff in the UK and Australia in the near future to confirm local market requirements and commence development of the UK and Australian editions of the software.

In New Zealand, Xero initially plans to directly target the following groups of SMEs with its online accounting software offering:





- Hi-tech companies – in New Zealand, the hi-tech community includes more than 9,000 businesses of which over 8,500 have revenue of less than \$1 million per annum.¹⁰ The Directors believe these businesses are SaaS ready, and as such, are likely to be early adopters of Xero.
- Professional service firms – who need integration between their general ledger, time recording, work in progress (WIP) management and invoicing systems. The accountants themselves fall into this category and are key influencers. The New Zealand Institute of Chartered Accountants currently has around 29,000 members.¹² Xero’s strategy is to empower the accounting community with a product that enhances their businesses.

- Not-for-profit organisations – which typically need low-cost solutions and many suit a web-based accounting model, especially where the accounting administrator may frequently change.
- Spreadsheet and ‘shoebox’ customers – these entities do not yet operate an accounting system, instead they use spreadsheets or file away their accounting records until balance date. These SMEs are potentially looking for an easy, inexpensive, web based solution which Xero offers.

Professional online auction traders, property investors, franchisers and tradespeople are further examples where community targeted strategies can be deployed by Xero.

PARTNERING STRATEGY Xero plans to develop an effective partnering programme to sell the Xero system through its partners. This will provide Xero with scaleable growth opportunities as well as lower costs of sale.

The intended partners include accountancy firms, financial advisers, financial institutions, Internet Service Providers (ISPs), sector, industry and trade association groups. These are all organisations that have day-to-day contact with large penetrable customer bases.

Partners will be rewarded through a structure that will encourage them to promote the Xero product to their customers. Xero intends to employ account executives initially in New Zealand and then in the UK and Australia to focus on building relationships with new partners and to generate customer demand through this channel.

Xero is working with a number of New Zealand retail banking institutions to gain automated access to customer banking transactions and will seek to establish further such relationships over time. Xero is also working with a number of New Zealand chartered accountancy firms to assist with the endorsement of Xero.

Xero is completing the work required to be a Microsoft Gold Partner, just as the Founders have done with previous technology companies. As a Microsoft Gold Partner, Xero will be able to participate in joint promotional opportunities through the Microsoft community.

The creation and continued development of partnering relationships will be a key factor in assisting Xero to establish its business and grow its customer base.

OPERATIONAL SUPPORT SYSTEMS To support its application and the SaaS model, Xero has developed a comprehensive and evolving suite of back office functionality to manage its business and drive the marginal cost of each new customer to the lowest possible amount.

Xero will focus a significant proportion of its development efforts on these processes and systems because Xero's capacity for increasing the scale of its business internationally will depend on them.

SECURITY Xero hosts its data at third party data centres and is using a number of third parties to undertake regular security audits. Xero believes that, as an online software business, it is imperative that it makes continued investment in its security processes.

INTELLECTUAL PROPERTY Xero has an intellectual property strategy, which will be regularly reviewed by the Directors.

All intellectual property used by Xero is either owned by it or licensed from a third party. The Xero logo and brand has been trademarked by Xero in New Zealand. The xero.com domain name has been secured by Xero.

TECHNIUM CHALLENGE FINALIST Xero has recently been selected as New Zealand's finalist in the worldwide Technium Challenge to be held in Wales, UK, in late May 2007. The competition is being organised by Technium UK and International Business Wales to award one high-growth international technology company a UK business passport to assist them to open an office in Wales and enter the UK market.

Xero will compete with companies from Australia, China, France and South Africa.

Technium UK (on behalf of International Business Wales) stated that while it was impressed with the very high standard of the presentations of the four New Zealand finalist companies, Xero clearly stood out from the rest in terms of its business proposition for expansion into the UK market, its exciting web-based and real-time collaborative accounting solution, as well as the overall strength of its management team.¹³

KEY MILESTONES The Directors have set the following key general milestones to be achieved during the next three years:

- Product – undertaking an unconstrained launch of the product in New Zealand during 2007 and creating UK and Australian versions of the product.
- Overseas expansion – establishment of in-market teams in both the UK and Australia.
- Operating systems – implementation of an international deployment platform architecture for the future establishment of Xero's business in the UK and Australia.
- Sales – achieving a sufficient number of domestic customers to enable Xero's New Zealand operations to achieve a break-even level of profitability.
- Customer satisfaction – conducting a customer survey and achieving results that meet or exceed customer satisfaction targets; and
- Partnering – achieving Microsoft Gold Partnership status and developing further partnering agreements with financial institutions for further bank data feeds of customer transactions.
- Recognition - gaining a number of international awards to further build credibility and achieving page one, unpaid Google search results.

Dependent on pricing, the Directors assess, based on their current estimates of Xero's cost base, that Xero's New Zealand revenue will begin to exceed its New Zealand cost base at around 8,000 customers. However, Xero will also be investing in the development and growth of the business and pursuing expansion of the business into the UK and Australia. Therefore, the Directors do not currently expect that Xero will record an overall profit for at least three years.

Orange IT - Small Organisation | Nathaniel Robinson | Logout | XERO

Dashboard Accounts Reports Settings Help Support

Reports > Executive Summary

Date: May 2007 | Shows: Summary and Ratios | Update

Executive Summary
Orange IT
For the month of April 2007

	May 2007	Apr 2007	Variance
Cash			
Cash received	31,744.94	2,670.95	346.1% ▲
Cash spent	30,442.94	2,897.94	250.4% ▲
Cash surplus/deficit	1,301.99	(126.99)	200.3% ▲
Opening bank balance	235,553.69	214,252.89	0.9% ▲
Profitability			
Income	8,932.45	1,863.99	379.2% ▲
Direct costs	0.00	41.32	379.2% ▲
Gross profit (loss)	8,932.45	1,802.67	379.2% ▲
Expenses	8,768.95	6,649.30	30.2% ▲
Profit (loss)	163.50	(1,846.63)	100.3% ▲
Balance Sheet			
Debtors	23,576.22	15,431.20	50.4% ▲
Creditors	229,686.81	229,686.81	0.0% ▲
Net assets	209,594.18	208,894.55	0.3% ▲
Performance			
Gross profit margin	100.0%	95.7%	3.4% ▲
Net profit margin	1.6%	-263.8%	100.3% ▲
Return on investment (p.a.)	0.5%	-17.2%	100.3% ▲
Position			
Average debtors days	46.6	248.4	-47.1% ▼
Average creditors days	813.9	1,827.7	-43.1% ▼
Short term cash forecast	206,378.99	(214,457.44)	5.9% ▲
Current assets to liabilities	1.5	1.5	-0.3% ▼
Long term assets to liabilities	6.7	6.4	0.3% ▲

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THE SAAS MODEL IS BECOMING ESTABLISHED INTERNATIONALLY AS A METHOD OF SUPPLYING OTHERWISE EXPENSIVE TECHNOLOGY SOLUTIONS TO SMES.

The nature of Xero, as a start-up company, means that it needs to be flexible with its strategies, plans, targeted milestones, operations, and affairs so that it can, quickly and at short notice, respond to change, such as changes in the accounting or software industries, its competitive environment and insights it gains about its operations, costs and investment requirements as the business grows. Accordingly, Xero's strategies, plans, targeted milestones, operations and affairs, as described in this Offer Document, are very much subject to change as Xero seeks to evolve from a start-up company into an established business.



PAY...



...AS YOU GO

NO UPFRONT COSTS OR INSTALLATION REQUIRED
— CUSTOMERS LOGIN AND PAY AS THEY GO.

INDEPENDENT
DIRECTORS

GRAHAM SHAW

SAM MORGAN

PHIL NORMAN

GUY HADDLETON

XERO BELIEVES IT HAS SECURED A STRONG BOARD OF DIRECTORS WITH A GOOD BALANCE OF THE SKILLS AND EXPERIENCE NECESSARY TO GUIDE THE COMPANY THROUGH ITS GROWTH JOURNEY.

THE BOARD COMPRISES FOUR INDEPENDENT DIRECTORS AS WELL AS THE TWO FOUNDERS, ROD DRURY (CEO) AND HAMISH EDWARDS (CFO). BACKGROUND ON THE FOUNDERS IS INCLUDED IN THE MANAGEMENT PROFILES ON PAGE 43.

PHIL NORMAN, INDEPENDENT CHAIRMAN (AUCKLAND) Phil is Managing Director of Nortek Management Services Limited, a boutique business advisory firm providing mergers and acquisitions advice and business development services for growth companies. He has over thirty years experience in the ICT sector, having been an owner, manager, director and investor in a number of local and international companies.

These roles have included the establishment, growth and successful exit of an accounting software company, Interactive Applications Limited, which at the time the business sold was the market leader in New Zealand and Australia; the establishment of the first New Zealand distributorship for Microsoft and then, subsequently, a sales and marketing management position in the start-up team for Microsoft New Zealand; a two year assignment for Telecom New Zealand during which Phil was responsible for the conception and rollout of Xtra, Telecom's Internet Service Provider; and a five year term as Executive Chairman of Strathmore Group Limited, an NZX-listed technology investment company.

Phil also has considerable venture capital and investment banking experience. He was Chairman of the New Zealand Venture Capital Association during 2002 and 2003 and is currently a member of New Zealand Trade & Enterprise's Beachheads Advisory Board. He is also a board member of Connect New Zealand, a national development group established to enable the international growth of New Zealand based technology firms.

Phil holds an MBA degree from the University of Auckland and is also a member of the Institute of Directors in New Zealand, the New Zealand Institute of Management and the New Zealand Computer Society.

GRAHAM SHAW, INDEPENDENT DIRECTOR (WELLINGTON) Graham is a chartered accountant with 30 years experience in business. He provides commercial advisory services to SMEs, mentoring advice to senior executives and sits on a number of corporate and not-for-profit advisory boards.

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

Graham has a Bachelor of Commerce from the University of Canterbury. He is a Fellow of the New Zealand Institute of Management, an accredited management mentor and a Companion of the Institution of Professional Engineers of New Zealand.

GUY HADDLETON, INDEPENDENT DIRECTOR (MINNEAPOLIS, USA) Guy Haddleton is co-founder and chief executive of award winning US product innovator Ascadia, which develops and markets products for consumer and business-to-business markets. Guy was founder, chairman and chief executive of enterprise performance planning

software leader Adaytum, from 1990 to 2002, which after expanding from market leader in the UK to Europe, the USA and Asia Pacific, was sold in 2002, for \$US160 million.

Before Adaytum, Guy was managing director at London marketing and subscription management company TV Direct. Guy has also held senior management positions in the UK distribution industry, served as an officer in the New Zealand army and is an MBA graduate from the University of Otago.

Guy is currently based in Minneapolis, USA, after emigrating from New Zealand in 1985, but is now looking to spend a greater proportion of his time in New Zealand.

SAM MORGAN, INDEPENDENT DIRECTOR (WELLINGTON) Sam Morgan is best known for founding online auction website TradeMe which, in 2006, was sold for \$700 million.

Sam started his career at Deloitte Consulting before establishing TradeMe.

Sam has also built online dating businesses in New Zealand, Australia and Canada. He also runs New Zealand's largest friend reunification site, Old Friends. Sam's ventures focus on three things – usability, empowering consumers and connecting people.

Sam is a thought leader in web based consumer applications.

Sam is an active investor in New Zealand companies with holdings in a number of successful technology businesses including iVistra Technology and Sonar6.

ROLE OF THE BOARD The Board has ultimate responsibility for the strategic direction of Xero and supervising Xero's management for the benefit of shareholders.

The specific responsibilities of the Board include:

- Working with management to set the strategic direction of Xero.
- Monitoring and working with management to direct the business and the financial performance of Xero.
- Monitoring compliance and risk management.
- Establishing and monitoring the health and safety policies of Xero.
- Establishing and ensuring implementation of succession plans for senior management.
- Ensuring effective disclosure policies and procedures are adopted.

The Board will meet not less than 10 times during the financial year, including sessions to consider the strategic direction of Xero and Xero's business plans. Video and/or phone conferences will also be used as required.

The Board intends to develop a Board code of conduct and a process for measuring Board performance.

BOARD COMMITTEES The Board has two formally constituted committees of Directors. These Committees, established by the Board, review and analyse policies and strategies, usually developed by management, which are within their terms of reference. The Committees examine proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically authorised to do so by the Board.

Audit and Risk Management Committee The Audit and Risk Management Committee will be responsible for overseeing the risk management (including treasury and financing policies), treasury, insurance, accounting and audit activities of Xero, and reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of external auditors, reviewing the consolidated financial statements, and making recommendations on financial and accounting policies.

The members of the Audit and Risk Management Committee are Phil Norman, Graham Shaw, Sam Morgan and Hamish Edwards.

Remuneration Committee The Remuneration Committee is responsible for overseeing management succession planning, establishing employee incentive schemes, reviewing and approving the compensation arrangements for the executive Directors and senior management, and recommending to the full Board the remuneration of Directors.

The members of the Remuneration Committee are Phil Norman, Graham Shaw and Guy Haddleton.

DIRECTORS' INTERESTS

Directors' Remuneration The Directors' fees for the Independent Directors of Xero have been fixed, initially at a total of \$250,000 per annum. Xero does not currently intend to pay Director's fees exceeding, in aggregate, \$180,000 per annum, comprising \$60,000 per annum for Phil Norman, as Chairman, and \$40,000 per annum for each other Independent Director. The additional level of Director's fees is intended to provide flexibility for the payment of fees in the future.

Rod Drury and Hamish Edwards both receive remuneration in their roles as the CEO and the CFO, respectively of Xero and will not receive Directors fees.

The Directors will also be entitled to paid remuneration by way of consultancy fees, for consultancy services provided by them other than in their capacity as Directors. All additional remuneration and the services provided by Directors will be disclosed each year in Xero's annual report. The Directors are also entitled to be paid for all reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or Shareholder meetings, or otherwise in connection with Xero's business.

Directors' Shareholdings The Independent Directors intend to subscribe for \$1.35 million of Shares under the Offer, at the Offer Price of \$1.00 per Share. Accordingly, on listing and assuming the Share Offer is fully subscribed to the level of \$15.0 million, the Directors will hold or control the following Shares in Xero:

DIRECTOR'S SHAREHOLDINGS

	No. of shares	%
Rod Drury	24,668,025	44.9%
Hamish Edwards	6,960,000	12.7%
Phil Norman	499,968	0.9%
Graham Shaw	594,002	1.1%
Guy Haddleton	300,007	0.5%
Sam Morgan	1,800,006	3.3%

Loans to Directors The Board has, with the approval of Xero's Existing Shareholders, introduced an unsecured loan facility for the Independent Directors to enable them to acquire up to 300,000 Shares under the Share Offer at the Offer Price of \$1.00 per Share. Loans will carry a rate of interest of 4.0% per annum and will be repayable after five years or earlier at the discretion of the Independent Director. The loans will not be forgiven by Xero, irrespective of share price performance.

The following Independent Directors have elected to borrow the amounts set out below to enable them to subscribe for the number of Shares set out below.

LOANS TO DIRECTORS

	Loan amount	No. of shares
Phil Norman	\$100,000	100,000
Graham Shaw	\$100,000	100,000
Guy Haddleton	\$100,000	100,000

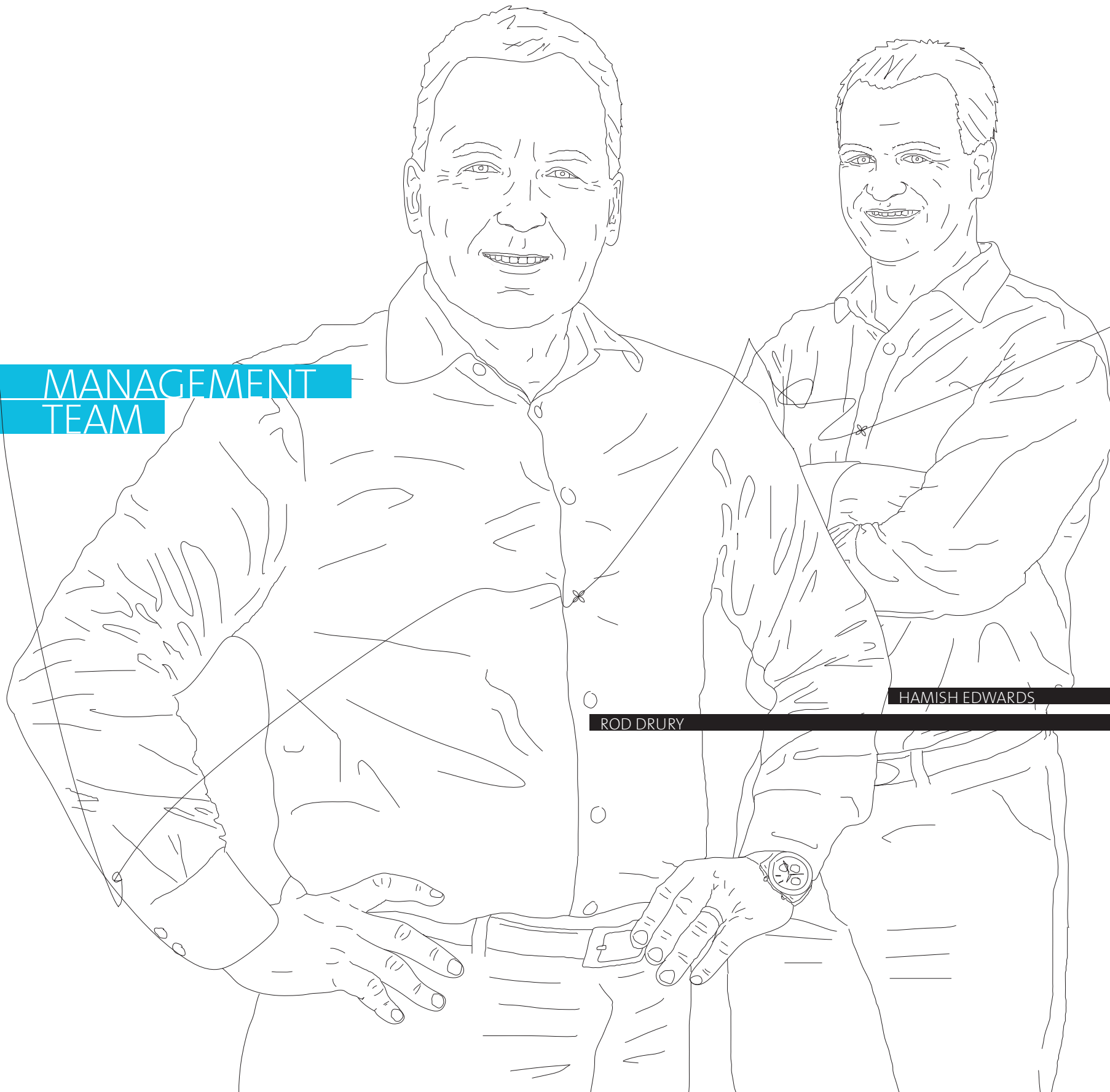
Graham Shaw also intends to subscribe, in cash, for an additional 50,000 Shares under the Share Offer at the Offer Price of \$1.00 per Share.

Sam Morgan intends to subscribe, in cash, for 1,000,000 Shares under the Share Offer at the Offer Price of \$1.00 per Share.

None of the Directors guarantees the Shares offered under this Offer Document or undertakes any liability in respect of the Shares.

THE BOARD HAS
ULTIMATE RESPONSIBILITY
FOR THE STRATEGIC
DIRECTION OF XERO
AND SUPERVISING
XERO'S MANAGEMENT
FOR THE BENEFIT OF
SHAREHOLDERS.

MANAGEMENT
TEAM



ROD DRURY

HAMISH EDWARDS

ROD DRURY, CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR (WELLINGTON)

New Zealand Hi-Tech Entrepreneur of the Year in 2006, Rod sold his award-winning email archiving software company, AfterMail, to USA publicly listed company, Quest Software in January 2006.

In the late 1980s to early 1990s Rod worked primarily for Ernst & Young, as well as spending several years working on telecommunication billing systems both in New Zealand and the USA. Throughout his career Rod has maintained a close relationship with Microsoft and was selected as New Zealand's first representative on the prestigious Microsoft Developer Network (MSDN) Regional Director programme, holding the role from 1997 to 2000. Rod achieved Microsoft Most Valuable Professional status for his work in the early days of Active Server Pages.

In 1995 Rod developed one of New Zealand's first Microsoft development companies, Glazier Systems, which was acquired by Advantage Group in 1999 and continues today as InterGen. In 2000, Rod co-founded Boston based Context Connect which holds several mobile directory patents.

Rod was an Independent Director of TradeMe and SQL Services at the time of their trade sales and continues on the TradeMe Advisory Board. Rod is also on the New Zealand Trade & Enterprise Beachhead Advisory Board.

Rod is a high profile advocate of the New Zealand software industry and has provided angel funding to a number of new software companies in a bid to develop local talent and experience.

Rod has a Bachelor of Commerce and Administration from Victoria University of Wellington, majoring in Accounting.

HAMISH EDWARDS, CHIEF FINANCIAL OFFICER AND EXECUTIVE DIRECTOR (WELLINGTON)

Hamish Edwards was formally CEO, now Chairman, of Openside, one of New Zealand's fastest growing Chartered Accounting consulting firms. Openside grew strongly in the past four years and was recently placed fifth in a survey of New Zealand's top 100 Accounting firms.¹⁴

Hamish's specific focus with his Openside clients has been on growth, financial and strategic matters. Hamish is passionate about business success and has frequently been referred to by entrepreneurs as their Virtual CFO. He is active within the financial community chairing the Wellington Tax Liaison Group and advising community groups on accounting and business issues.

Hamish has worked as an Accountant for both Englefield Industries in Auckland and for BDO Spicers in Wellington. At Openside, Hamish has gained extensive experience working with some of New Zealand's fastest growing ICT businesses.

Hamish is an SME expert and as such has written for the Fairfax Group, the National Business Review, M2 Magazine and various other publications about business issues. Hamish has also been a frequent guest on National Radio's Jim Mora show.

Hamish is a Chartered Accountant, holds a Certificate of Public Practice and has a Bachelor of Commerce from the University of Otago, majoring in Marketing and Accounting.

ALASTAIR GRIGG, CHIEF OPERATING OFFICER

Alastair joined Xero from Air New Zealand, where he was Chief Information Officer for the last three and a half years, responsible for an extensive global portfolio of over 400 enterprise systems, 200 staff and significant IT infrastructure outsource operations contracts with IBM, Axon and Telecom New Zealand.

At Air New Zealand, Alastair oversaw a transformation of IT service performance, while reducing the company's annual IT operating costs by over \$40 million and delivering significant new strategic initiatives, including the innovative Airpoints Dollars loyalty scheme and new online booking and customer self service systems.

Alastair has 16 years of IT industry experience, involving roles with IT vendors such as IBM, Computer Associates and Geac, contrasted by roles in successful start-up ventures such as Telecom Xtra, Glazier Systems and www.utilyx.com. This experience has covered a wide range of roles including business establishment, general management, business development, systems development and programme management.

Alastair holds a Bachelor of Horticultural Science (First Class Honours) from Massey University.

ANTHONY BISHOP, SALES DIRECTOR

Anthony has worked for some of the largest and most successful IT solutions companies. Most recently he was the New Zealand Country Manager of SAS Institute, the world's largest privately owned software company. Over a four year period, he led the region to become one of the most profitable subsidiaries in Asia Pacific and also New Zealand's employer of the year in 2006.

Anthony began his career as a developer of business software in the 1980s and quickly moved into more customer facing roles with Geac, Data General, Computer Associates, and Sequent Computer Systems. His ability to translate a broad understanding of IT into a business context positioned Anthony well with customers, leading to a role with IBM in New Zealand, responsible for some of the largest financial services customers in the region. Anthony left IBM to join SAS Institute in 2002.

Anthony is currently studying for an Executive MBA at Victoria University of Wellington.

KATE MCLAUGHLIN, MARKET COMMUNICATIONS MANAGER

Kate McLaughlin strengthens Xero's public relations and communications. Kate joined Xero from the National Business Review ("NBR") where she was a noted journalist covering technology and telecommunications. Prior to the NBR, Kate was a producer at Telecom's news website Xtra.

Kate has a wide range of contacts within the technology industry and wider business community, in New Zealand and internationally. She has excellent communication, research and analytical skills.

Kate holds a Bachelor of Arts, majoring in Political Science from Victoria University of Wellington and a Diploma in Journalism from Massey University, Wellington.

HAMISH CARTER, RELATIONSHIPS MANAGER

Hamish Carter is a New Zealand icon who has achieved phenomenal success on the international stage. As 2004 Olympic Gold Medalist, he brings passion and dedication to small and medium sized enterprises, having been a highly successful business operator himself, through the management of events, sponsorships and his supporters.

“KIWIBANK IS ABOUT PROMOTING NEW ZEALAND COMPANIES AND WE'RE REALLY PLEASED TO BE WORKING WITH SUCH A TALENTED TEAM.”

SAM KNOWLES
CEO – KIWIBANK LIMITED

EMPLOYEE SHARE OPTION SCHEME Selected Xero employees have shown their commitment to Xero by personally investing in the Company.

As part of its further employee incentive plans, Xero has established an Employee Share Option Plan (“ESOP”). The ESOP is aimed at motivating key employees to meet defined key performance indicators and at attracting potential high achievers to work at Xero. Directors are not eligible to participate in the ESOP.

No options have been granted under the ESOP as at the date of this Offer Document.

Options will be granted at the discretion of the Directors, who will set the exercise price for the options at the time they are granted, subject to the NZSX Listing Rules and other legal requirements. It is intended that the exercise price of the options will be based on a volume weighted average price at which Shares traded on the NZSX over the preceding 10 trading days. It is proposed that Optionholders will be entitled, on payment of the exercise price, to receive one Share for every option exercised.

One third of any options granted under the ESOP will become exercisable by the Optionholder on each of the first three anniversaries of the date of granting. Options lapse if they are not exercised within seven years of the date of granting.

If an Optionholder ceases to be employed by Xero, all of their options (other than those that have already become exercisable) will lapse.

The total number of options granted during the period of 12 months preceding the date of granting of the options may not exceed 2% of the aggregate of the total number of shares on issue at the commencement of that period and the total number of shares issued during that period.

UK ADVISORY BOARD The UK is a key target market for Xero. As Xero does not currently have the same level of relationships in the UK as it has in New Zealand, the Directors have established a UK Advisory Board.

It includes a number of well connected and experienced UK individuals who are members of the New Zealand Trade & Enterprise Beachheads Boards and are willing to assist Xero to enter the UK market.

Xero’s UK Advisory Board currently comprises the following people:

Eric Tracey – Eric is a New Zealander and is currently a director of a number of UK companies, including Chloride Group plc. He is a chartered accountant of both New Zealand and England & Wales and was a partner of Deloitte & Touche in London from 1980 to 2004. He was in charge of the European Energy, Infrastructure and Utilities practice from 1996 to 2002. Eric then completed successful financial reorganisations as the Finance Director of Amey plc and Wembley plc. He is a Freeman of the City of London. Eric is also chairman of the UK Advisory Board of NZTEs Beachhead programme.

Bernard Cazenove – Bernard is married to a New Zealander and between 1982 and 2004 was employed by Cazenove & Co., stockbrokers. He became a partner of Cazenove & Co in 1982 and in 1996 he was appointed Managing Director of Cazenove Fund Management. He is a Freeman of the City of London.

John Stace – John is a New Zealander who has had an extensive 25 year career in the financial services sector in London. He returned to New Zealand in February 2005. John is a Director of SOE, Genesis Power Limited, Chairman of Methodware Limited, a Wellington based software company, Chairman of Triplejump Limited, New Zealand’s first multi agency life insurance franchise company, Deputy Chairman of Aardvark EM, a UK based environmental consultancy as well as other directorships. He built Stace Barr Limited into the then largest capital provider to Lloyd’s of London and was the first CEO of Angerstein Underwriting Trust, now called Amlin plc. In 1995 and 1996 he was Deputy Chairman of Lloyd’s of London. He is a Freeman of the City of London.

Eric Tracey, Bernard Cazenove and John Stace are not Directors of Xero. It is intended that the UK Advisory Board members will be remunerated for their services at market rates.

Xero has been accepted into the NZTE Beachheads programme for the UK. This will provide Xero with improved access to business networks and general market entry assistance to accelerate the Company’s growth in the UK.

PROSPECTIVE FINANCIAL INFORMATION

FORWARD-LOOKING STATEMENTS Certain statements in this Offer Document constitute forward-looking statements, including the assumptions related to the prospective financial information set out on pages 46 to 49. Such forward-looking statements involve known and unknown risks, uncertainties and other factors (many of which are beyond the control of Xero) which may cause the actual results, performance or achievements of Xero, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include but are not limited to, among other things, those discussed on pages 76 to 77 under “What are my risks?”

Given these uncertainties, investors are cautioned not to place undue reliance on such forward-looking statements in this Offer Document. In addition, under no circumstances should the inclusion of such forward-looking statements in this Offer Document be regarded as a representation or warranty by Xero, its Directors or any other person with respect to the achievement of the results set out in such statements or that the assumptions underlying such forward-looking statements will in fact be correct.

Xero disclaims any responsibility to update any such risk factors or publicly announce the result of any revisions to the forward-looking statements contained in this Offer Document to reflect future developments or events, other than where it is required to do so by the Securities Act 1978, the Securities Regulations 1983 or the NZSX Listing Rules.

PROSPECTIVE FINANCIAL INFORMATION This prospective financial information for Xero comprises a prospective statement of cash flows together with the general and Company specific assumptions on which all of the prospective financial information is based.

The prospective financial information, including the assumptions on which they are based, is the responsibility of, and has been prepared by, the Directors. The Directors approved the prospective financial information on 9 May 2007. They have given due care and attention to the preparation of the prospective financial information, including the underlying assumptions. However, forecasts by their nature involve risks and uncertainties, many of which are beyond the control of the Company. These risks and uncertainties include, but are not limited to, those discussed under the heading “What are my risks?” on pages 76 to 77 of this Offer Document. Accordingly, actual results are likely to vary from the prospective financial information, and variations may be material. Therefore, the Directors cannot and do not guarantee the achievement of their financial forecasts.

PRINCIPAL ASSUMPTIONS UNDERLYING THE PROSPECTIVE FINANCIAL INFORMATION

The principal assumptions upon which the prospective financial information is based are summarised below and should be read in conjunction with the “Risks” section on pages 76 to 77.

The prospective financial information for the 12 months ending 10 May 2008 has been prepared on the basis of assumptions as to future events that the Directors reasonably expect to occur, and in association with the actions the Directors reasonably expect to take as at the date the information was prepared.

The prospective financial information has been prepared for the purposes of this Offer Document and may not be suitable for any other purpose. There is no present intention to update this prospective financial information or to publish the prospective financial information in the future. Investors must consider the assumptions described below in order to fully understand the prospective financial information.

PROSPECTIVE STATEMENT OF CASH FLOWS

For the 12 months ending 10 May 2008

	\$
<i>Cash Flows from Operating Activities</i>	
Receipts from Customers	550,000
Payments to Suppliers and Employees	(5,934,000)
	(5,384,000)
<i>Interest Received</i>	
Interest Received	365,000
Grants and Other Receipts	190,000
Other Tax Receipts	119,000
	(4,710,000)
<i>Cash Flows from Investing Activities</i>	
Payments for Property, Plant & Equipment	(699,000)
Software Development Capitalisation	(971,000)
Loan to Directors at IPO	(300,000)
	(1,970,000)
<i>Cash Flows from Financing Activities</i>	
Proceeds from Issue of Share Capital	15,000,000
Hire Purchase Repayments	(11,000)
Payment of Transaction Costs	(1,022,000)
Net Cash From/(Used In) Financing Activities	13,967,000
	7,287,000
Cash and Cash Equivalents at 11 May 2007	1,090,979
Cash and Cash Equivalents at 10 May 2008	8,377,979

PRINCIPAL ASSUMPTIONS UNDERLYING THE PROSPECTIVE FINANCIAL INFORMATION FOR THE 12 MONTHS ENDING 10 MAY 2008

Basis of preparation

- The historic accounts of Xero.
- The prospective information is prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).
- The prospective statement of cash flows has been prepared on a consistent basis with Xero's accounting policies, as set out on pages 54 to 58.
- All figures have been rounded to the nearest thousand.

A. GENERAL ASSUMPTIONS

Economic Environment There will be no material change in the general economic environments that Xero operates in and into which it sells its products.

Legislative and Regulatory Environment There will be no material change to the legislative and regulatory environments in which Xero operates and sells its products into in the period covered by the prospective financial information.

Competitive Environment There will be no material change to the competitive markets, industry structure, technological environment, general industry conditions, third party or employee environment in the period covered by the prospective financial information.

Taxation There will be no material change to the tax regime in New Zealand, or any other country where Xero trades, including no change to the company tax rates in any of those countries.

Management of Xero No key personnel will leave Xero during the period covered by the prospective financial information.

Operating Environment There will be no material costs incurred through either industrial or contractual disputes.

B. SPECIFIC ASSUMPTIONS

The key assumptions made in preparing the prospective statement of cash flows for the 12 months to 10 May 2008 are detailed below.

Revenue

- New Zealand customer numbers will grow to 1,300 customers by 10 May 2008. These customers are added as operational capability is enhanced.
- No revenue will be generated from UK and Australian markets.
- The assumed average pricing is \$75 (plus GST) per customer per month, based on Xero's current level of functionality. There will be no significant change in pricing during the prospective period.
- Interest income is calculated at 4% gross.

Operating Expenditure

- Prospective selling, promotion and marketing costs will increase to support Xero's growth and investment in development in the UK and Australian markets.
- New Zealand employee numbers will increase to 52, with any vacancies assumed to be filled, at a cost of \$3.2 million.
- Operating and overhead costs to support the increased staffing and customer base will be \$1.3 million.
- Marketing spend has been assumed to be \$300,000.
- Initial establishment costs into the UK and Australia have been assumed to be \$1.2 million.

Capital Expenditure

- Capital expenditure is based on new employee growth (\$64,000), fit out of offices (\$260,000), and technology infrastructure improvement (\$375,000).

Software Development Expenditure

- Xero is a sales and design led business. As such, there is no significant capitalisation of the software asset.
- The Directors have assumed, after consultation with the Chief Technology Officer, that 75% of software development salary costs will provide an enduring benefit and as such those costs will be capitalised.

Dividends

- No dividends will be paid.

Capital Raising

- The Share Offer raises \$15.0 million and this funding is received in June 2007. Share Offer related costs of \$1.022 million will be paid.
- The prospective financial information includes loans to Independent Directors for \$300,000 for the purchase of shares under the Share Offer. The terms of these loans are at an interest rate of 4% with the loans being repaid in full in five years. No security is provided over the loans. If an Independent Director resigns then the loan remains in place.

Employee Share Option Plan

- There will be no allotment of Shares under the ESOP to employees in the prospective financial information period.

Taxation

- Shareholder continuity will not be breached. As such, tax losses will be carried forward.

Other

- There will be no material change in the payment terms of creditors.
- There will be no material change in debtors' terms of trade and collection relationships.
- Cash reserves will be held with Xero's banking service provider. Cash will be invested in a low risk, liquid cash portfolio, with the majority of funds held in NZD. Some funds may be held in other currencies.
- The opening cash position is the cash balance at 11 May 2007 as extracted from the bank account on that date.

HISTORIC FINANCIAL INFORMATION

THE FOLLOWING AUDITED FINANCIAL INFORMATION FOR XERO FOR THE FINANCIAL YEAR ENDING 31 MARCH 2007 IS SET OUT BELOW AND INCLUDES:

- THE INCOME STATEMENT.
- THE BALANCE SHEET.
- THE STATEMENT OF CHANGES IN EQUITY.
- THE STATEMENT OF CASH FLOWS.
- THE NOTES TO THE FINANCIAL STATEMENTS.

IN ADDITION, SUMMARY FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 31 MARCH 2007 IS SET OUT OPPOSITE.

SUMMARY FINANCIAL STATEMENTS

Nine months ended 31 March 2007

	(Audited) \$
Total Operating Revenue	-
Other Revenue	119,745
Interest Expense	556
Directors Fees	43,345
Net Surplus/(Deficit) Before Taxation	(1,048,907)
Taxation	-
Net Surplus/(Deficit) After Taxation	(1,048,907)
Dividends on Ordinary Shares	-
Net Surplus/(Deficit) Retained	(1,048,907)
Total Assets	2,006,175
Total Tangible Assets	1,884,712
Total Liabilities	274,044
Total Equity	1,732,131
Net Tangible Assets – Note 1	1,610,668
Ordinary Shares on Issue (following share split)	40,000,000
Net Tangible Asset Backing per Share – Note 1	\$0.0403
Net Tangible Assets – Note 2	15,588,668
Ordinary Shares on Issue (following this Offer Document)	55,000,000
Net Tangible Asset Backing per Share (\$/Share)	\$0.2834

NOTE 1 In accordance with clause 8.3(b)(v) of the First Schedule of the Securities Regulations 1983, the net tangible asset backing per ordinary share as at 31 March 2007 (adjusted for the share split which occurred on 9 May 2007, under which each existing Share was subdivided into 23.2 Shares).

NOTE 2 In accordance with clause 8.5(a) of the First Schedule of the Securities Regulations 1983, the net tangible asset backing per Share as at 31 March 2007 has been calculated on the assumption that all 15,000,000 new ordinary Shares have been issued as part of this Share Offer and net issue proceeds of \$13,978,000 (\$15,000,000 less \$1,022,000) have been received.

INCOME STATEMENT

For the nine months ended 31 March 2007

	Note	\$ 2007
Other Income	4	119,745
		119,745
<i>Expenditure</i>		
Employee Benefits	4	813,277
Other	6	334,494
Finance Costs	4	556
Depreciation	11	20,325
		1,168,652
Profit (Loss) Before Income Tax		-1,048,907
Income Tax Expense	7	0
Profit (Loss) for the period		-1,048,907

STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 March 2007

	\$ 2007
Equity at the beginning of the period	-
Net Profit (Loss) after tax	(1,048,907)
Income & Expense items recognised directly in Equity	-
Total Recognised Revenue & Expense for the Period	(1,048,907)
Issue of Ordinary Shares	2,781,038
Dividends	-
Equity at the end of the period	1,732,131


BALANCE SHEET


As at 31 March 2007

	Note	\$ 2007
<i>Current Assets</i>		
Cash & Cash Equivalents		1,513,437
Accounts Receivable	12	25,998
Prepayments	18	24,090
GST		33,288
Deferred IPO Costs		82,295
Tax Asset	7	1,894
		1,681,002
<i>Non Current Assets</i>		
Plant Property & Equipment	11	286,005
Intangibles	15	39,168
		325,173
Total Assets		2,006,175
<i>Current Liabilities</i>		
Accounts Payable & Accruals	8	209,591
Employee Entitlements	9	33,897
Finance Lease - Current Portion		3,664
		247,152
<i>Non Current Liabilities</i>		
Finance Lease	10	26,892
Total Liabilities		274,044
Net Assets		1,732,131
<i>Equity</i>		
Share Capital	5	2,781,038
Retained Earnings		(1,048,907)
		1,732,131

DIRECTOR

DIRECTOR





STATEMENT OF CASHFLOWS

For the nine months ended 31 March 2007

	Note	\$ 2007
Cash Flows from Operating Activities		
Receipts from Customers		-
Payments to suppliers and employees		(1,032,642)
Interest received (and finance costs paid)		4,856
Income tax paid		-
Other tax paid (GST, RWT)		(16,655)
Grants and other receipts		91,780
Net Cash Flows from Operating Activities	16	(952,661)
Cash Flows from Investing Activities		
Payments for property, plant & equipment		(275,772)
Payments for investments		(39,168)
Net Cash Inflow (Outflow) from Investing Activities		(314,940)
Cash Flows from Financing Activities		
Issue of ordinary shares prior to NZX listing		2,800,000
Issue of ordinary shares on NZX listing		-
Costs of share issue		(18,962)
Net Cash inflow (Outflow) from Financing Activities		2,781,038
Net Increase (Decrease) in Cash Held		1,513,437
Cash at beginning of period		-
Cash at end of period		1,513,437

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED
31 MARCH 2007

1. CORPORATE INFORMATION The financial statements presented for Xero Live Limited are for the nine months ended 31 March 2007 as this was the first period of operation. Xero Live Limited was incorporated on the 6th July 2006. Authorisation for issue is in accordance with a resolution of the directors on 19th April 2007.

Xero Live Limited is registered under the Companies Act 1993 and is in the process of listing on the New Zealand Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-orientated entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on 19th April 2007.

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value;

- Available-for-sale financial assets are measured at fair value;
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.

(c) Functional Currency

These financial statements are presented in New Zealand dollars (\$), which is the Company's functional currency. All financial information is presented in New Zealand dollars and has been rounded to the nearest dollar.

(d) Use of Estimates and Judgments

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note f – Intangible assets: development expenditure
- Note 7 – Utilisation of tax losses
- Note I – Lease classification

(e) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

PROPERTY, PLANT & EQUIPMENT SHOULD BE SPLIT AS FOLLOWS:

	Depreciation Rates (DV)
Leasehold Improvements	12%
Office Equipment	19 - 48%
Computer Equipment	60%

(f) Intangible Assets**(i) Research & Development Costs**

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and use or sell the asset. The expenditure capitalised includes the costs of materials, direct labour and overhead costs that are directly attributable to

preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Following the initial recognition of the development expenditure, the costs model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

(ii) Other Intangible Assets

Intangible assets with infinite lives are measured at cost, and are assessed annually for indications of impairment. The Domain name is considered to have an indefinite useful life and not subject to amortisation.

Patents and Trademarks are considered to have finite lives and are measured at cost, and amortised according to f(iii).

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of the intangible assets, from the date they are available for use. The estimated useful lives are:

- Trademarks 10 years

(g) Foreign Currency*Foreign Currency Transactions*

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

(h) Financial Instruments**(i) Non Derivative Financial Instruments**

Non derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non derivative financial instruments are recognised initially at fair value, plus for instruments not at fair value through profit and loss, and directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

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

Held-to-maturity investments

If the Company has the positive intent to hold debt securities to maturity, then they are classified as held-to-maturity. Subsequent to initial recognition, held-to-maturity investments are recognised at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Instruments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit and loss if the Company manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Subsequent to initial recognition, other non derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other Receivables

Trade and other receivables are stated at cost less impairment losses.

*(ii) Share Capital
Ordinary Shares*

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity

Repurchase of Share Capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(i) Trade and Other Receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

For the period since incorporation to 31 March 2007, the Company has not made any sales. The only receivables have been in relation to government grants and GST refunds.

(j) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

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

(i) Impairment of Receivables

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

Trade receivables that are not individually significant for which it was determined that no objective evidence of impairment existed are collectively assessed for impairment in groups with similar characteristics.

For trade receivables which are not significant collective impairment is assessed on a portfolio basis based on a number of days overdue, and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

If the fair value of the trade receivable increases the impairment loss shall be reversed, with the amount of reversal recognised in equity.

(ii) Non Financial Assets

The carrying amounts of the Company's non financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the profit and loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decrease or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation, or amortisation, if no impairment loss had been recognised.

(k) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(l) Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

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

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(m) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

Revenue is initially recognised upon the completion of the licence agreement and providing the client with access to the service. Revenue is recognised monthly based on the monthly licence fees as outlined in the licence agreement.

Interest

Revenue is recognised as the interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Rental income

Rental income arising on sub leased properties is accounted for on a straight-line basis over the lease term.

(n) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

The initial recognition of goodwill;

The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantially enacted by the reporting date.

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

(p) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

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

(q) Segment Reporting

A segment is a distinguishable component of the Company that engages either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those other segments. The Company's primary format for segment reporting is based on geographical segments.

3. SEGMENT INFORMATION

Xero currently operates in one geographical segment – New Zealand.

4. REVENUES AND EXPENSES

	\$ 2007
<i>(a) Other Income</i>	
Government grants released	88,889
Interest Received	4,856
Rent Received	16,000
Sundry Income	10,000
	119,745
<p>Various government grants have been received for research and development activities in the start up phase of the Company. There are no unfulfilled conditions or contingencies attaching to these grants.</p>	
<i>(b) Finance (costs)/income</i>	
Bank loans and overdrafts	(181)
Finance charges payable under finance leases and hire purchase contracts	(375)
Total finance costs	(556)
Bank interest earned	4,856
Total finance income	4,856
<i>(c) Depreciation and amortisation included in income statement</i>	
Included in operating expenses:	
Depreciation	20,325
Impairment of property, plant and equipment	-
Amortisation of development costs	-
<i>(d) Lease payments and other expenses included in income statement</i>	
Included in administrative expenses:	
Minimum Hire Purchase interest payments (finance lease)	375
<i>(e) Employee benefits expense</i>	
Wages and salaries	813,277
<i>(f) Research and development costs</i>	
Research and development costs charged directly to expenses in the income statement	-

5. ISSUED CAPITAL**\$ 2007***Ordinary shares*

1,500,000 Issued on incorporation and fully paid	1,500,000
224,138 Issued in March 2007 and fully paid	1,281,038

2,781,038

There is called but unpaid capital of \$8,748 outstanding at 31 March 2007.

Movement in ordinary shares on issue

Issue of Shares on Incorporation	1,500,000
Issue of Shares on 28th March 2007	224,138

Shares on Issue at 31 March 2007 **1,724,138****6. AUDITORS' REMUNERATION****\$ 2007**

Amounts received or due and receivable by BDO Spicers for:

Audit of Financial Statements	7,500
Other services in relation to the entity	3,050

10,550

Other audit related services include services for the audit or review of financial information other than financial reports and includes prospectus reviews and other audits required for local regulatory purposes.

7. INCOME TAX**\$ 2007****Major components of income tax expense for the year ended 31 March 2007 are:***Income Statement*

Current income tax	
Current income tax charge	-
Deferred income tax	
Relating to origination and reversal of temporary differences	-
Relating to tax losses carried forward	-
Income tax expense reported in income statement	-

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the year ended 31 March 2007 is as follows:

Accounting profit/(loss) before income tax	(1,048,907)
At the statutory income tax rate of 33%	(346,139)
Fair value revaluations on fixed assets	-
Unrecognised tax losses	-
Deferred tax asset	-
Expenditure not allowable for income tax purposes	47,232
Other	-
At effective income tax of 33%	(330,553)
Income tax expense reported in income statement	-
Resident Withholding Tax Paid	1,894
Tax Asset	1,894

	Balance Sheet	Income Statement
	\$ 2007	\$ 2007
<i>Deferred income tax</i>		
Deferred income tax at 31 March relates to the following:		
Deferred income tax liabilities		
Accelerated depreciation for tax purposes	-	-
Other	-	-
Gross deferred income tax liabilities	-	-
Deferred income tax assets		
Losses available for offset against future taxable income	-	-
Timing differences on prepayments and fixed assets	-	-
Gross deferred income tax assets	-	-
Deferred income tax charge	-	-

The Company has New Zealand tax losses available to carry forward of \$1,007,036, subject to shareholder continuity being maintained as required by New Zealand tax legislation.

The Company has not recognised the tax losses in terms of a deferred tax asset in accordance with the accounting policies set out in these financial statements.

Imputation Credit Account

Balance at beginning of the year	-
Imputation credits attached to dividends received during the year	-
Imputation credits attached to dividends paid during the year	-
Income tax payments during the year	1,894
Balance at end of the year	1,894

8. TRADE AND OTHER PAYABLES

	Note	\$ 2007
Trade Payables due to related parties	13	27,726
Other trade payables		140,944
Non-trade payables and accrued expenses		40,921
		209,591

9. EMPLOYEE ENTITLEMENTS

	\$ 2007
Opening Employee entitlement	-
Arising during the year	33,897
Utilised	-
At 31 March 2007	33,897
Current	33,897
Non-current	-
	33,897

10. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

Company as lessee

The Company has entered into a commercial lease on office premises. The lease runs for a period of six years, with two rights of renewal for three years each. Lease payments are reviewed every three years to reflect market rentals.

The Company has entered into a commercial lease on car parking. The lease can be cancelled with a month's notice.

Part of the office premises are sublet to a related party at a monthly rental of \$5,333. The sublease can be terminated at a month's notice by either party.

	\$ 2007
Within one year	177,288
After one year but not more than five years	709,152
More than five years	132,966
	1,019,406

	Minimum Payments	Lease Interest	Principal
Less than 1 year	8,368	4,704	3,664
Between 1 and 5 years	32,774	5,882	26,892
More than 5 years	-	-	-
	41,142	10,586	30,556

Finance lease and hire purchase commitments

At 31 March 2007 the Company has a hire purchase commitment.

The Company has a hire purchase contract for office equipment; the lease has no terms of renewal or purchase options and escalation clauses.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as above.

Capital commitments At 31 March 2007 the Company has no capital commitments.

Legal claim At 31 March 2007 the Company has no legal claims.

Guarantees At 31 March 2007 the Company has made no guarantees.

11. PROPERTY, PLANT AND EQUIPMENT

Period ended 31 March 2007

Cost	Leasehold Improvements	Plant & Equipment	Computer Equipment	Office Equipment	Total
Additions	202,371	64,069	35,845	4,045	306,330
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
	202,371	64,069	35,845	4,045	306,330
<i>Depreciation</i>					
Opening	-	-	-	-	-
Accumulated Depreciation					
Depreciation Expense	3,884	8,491	7,341	609	20,325
Disposals	-	-	-	-	-
Balance as at 31 March 2007	3,884	8,491	7,341	609	20,325
Net carrying amount	198,487	55,578	28,504	3,436	286,005

12. TRADE AND OTHER RECEIVABLES

	Note	\$ 2007
Trade receivables from related parties	13	9,750
Other Trade receivables		11,250
Non-trade receivables		4,998
		25,998

13. RELATED PARTIES

Director	Note	Transaction value for period 2007	Balance outstanding 2007
Hamish Edwards - Openside CA Limited	(i)	18,000	6,000
Rod Drury - Share Capital (called but unpaid)	(ii)	3,750	
Trade receivables from related parties			9,750
Hamish Edwards - Openside CA Limited	(iii)	54,117	12,867
Graham Shaw - Corporate Concern Limited	(iv)	13,120	3,510
Philip Norman - Nortek Management Services Limited	(v)	30,225	11,349
Trade payables due to related parties			27,726

(i) The Company used accounting services of Openside CA Limited of which Hamish Edwards is a director and holds a controlling interest. Amounts were based on normal market rates for such services and were due and payable under normal payment terms.

(ii) The Company called the capital issued on incorporation. There is \$3,750 outstanding at balance date relating to this transaction.

(iii) The Company entered into a sublease agreement with Openside CA Limited, of which Hamish Edwards is a director and holds a controlling interest. Amounts were based on normal market rates for office space and are receivable under normal payment terms.

(iv) The Company entered into an agreement with Corporate Concern Limited, of which Graham Shaw is a director for payment of director's services provided.

(iv) The Company entered into an agreement with Nortek Management Services Limited, of which Philip Norman is a director and holds a controlling interest, for payment of director's services provided.

Key Management Personnel Compensation	Transaction value for period 2007
In addition to their salaries, key management personnel compensation includes 2 Directors car parks	1,350

Other Transactions with Key Management Personnel

Directors of the Company control 83.7% of the voting shares of the Company, directly and through related entities.

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be made available, on similar transactions to non-key management personnel related entities on an arm's length basis.

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

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES**Qualitative Disclosures***Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, ordinary shares, and hire purchase contracts.

Interest rate risk

The Company has minimal exposure to interest rates – this is through the interest earned and paid on the bank and short term deposits.

Liquidity Risk The following table sets out the contractual cash flows for all financial liabilities and for derivatives that are settled on a gross cash flow basis

	Balance Sheet	Contractual Cashflows	6 Months or Less	6-12 Months	1-2 Years	2-5 Years	More than 5 Years
Term Loans	30,556	40,769	4,074	4,074	8,148	24,473	-
Accounts Payable	209,591	209,591					
Total non derivative liabilities	240,147	250,360	4,074	4,074	8,148	24,473	-

Interest Rate Risk - Repricing Analysis

	Balance Sheet	6 Months or Less	6-12 Months	1-2 Years	2-5 Years	More than 5 Years
Cash and Equivalents	1,513,437					-
Trade and Other Receivables	25,998					
Finance Lease Liabilities	12.5%	(30,556)	(1,832)	(1,832)	(3,664)	(23,228)
Total Fixed Rate Instruments		1,508,879	(1,832)	(1,832)	(3,664)	(23,228)

Classification and Fair Values Set out below is a comparison by category of carrying amounts of all the Company's financial instruments that are carried in the financial statements at other than fair value through profit or loss.

2007	Trading at FV	Designated	Held-to-Maturity	Loans & Receivables	Available for Sale	Other Amort Cost	Total Carrying Value	Fair Value
<i>Assets</i>								
Trade & Rec				25,998			25,998	25,998
Cash & Equivalents				1,513,437			1,513,437	1,513,437
Total Assets	-	-	-	1,539,435	-	-	1,539,435	1,539,435
<i>Liabilities</i>								
Term Loan (Non Current)						26,892	26,892	26,892
Total Non Current Liability						26,892	26,892	26,892
Term Loan						3,664	3,664	3,664
Trade & Other payables						209,591	209,591	209,591
Total Liabilities	-	-	-	-	-	240,147	240,147	240,147

15. INTANGIBLE ASSETS

	Patents & Trademarks	Domains	Total
Cost			
Opening Cost	-	-	-
Additions	8,252	30,916	39,168
Disposals	-	-	-
Balance as at 31 March 2007	8,252	30,916	39,168
Amortisation and Impairment			
Opening Accumulated Amortisation	-	-	-
Amortisation for year	-	-	-
Impairment Loss	-	-	-
Disposals	-	-	-
Balance as at 31 March 2007	-	-	-
Carrying Amounts	8,252	30,916	39,168

16. RECONCILIATION OF OPERATING CASH FLOWS

	\$ 2007
Reconciliation from the net profit after tax to the net cash flows from operations	
Net profit	(1,048,907)
Adjustments for:	
Deferred IPO Expenditure	(82,295)
Depreciation	20,323
Amortisation	-
Impairment losses	-
Fair value loss on investment properties	-
Net (profit)/loss on disposal of property, plant and equipment	-
Interest received	-
Warranty provision	-
Share options expensed	-
Movement in deferred tax	-
Other	-
Changes in assets and liabilities	
(Increase)/decrease in trade and other receivables	(61,180)
(Increase)/decrease in prepayments	(24,090)
(Decrease)/increase in trade and other payables	243,488
Net cash from operating activities	(952,661)

17. EVENTS AFTER THE BALANCE SHEET DATE

In May 2007 Xero Live Limited will register a prospectus under the Securities Act 1978 and the first schedule of the Securities Regulations 1983. This Prospectus intends to raise \$15.0 million through the issue of ordinary Shares listing on the New Zealand Exchange (NZX).

18. PREPAYMENTS

	\$ 2007
Prepaid Rent	15,890
Prepaid Insurance	8,200
	24,090

AUDITOR'S REPORT

11 MAY 2007

**THE DIRECTORS
XERO LIVE LIMITED
LEVEL 1, OLD BANK CHAMBERS
98 CUSTOMHOUSE QUAY
WELLINGTON**

DEAR DIRECTORS We have prepared this report for inclusion in the combined investment statement and prospectus (the “offer document”) dated 11 May 2007.

As auditor of Xero Live Limited (the “company”), and in accordance with the requirements of the Securities Act 1978 and clause 42 of the First Schedule of the Securities Regulations 1983, we report as follows:

Audited financial statements of Xero Live Limited We audited the financial statements set out on pages 50 to 69. The financial statements provide information about the past financial performance of the company and its financial position as at 31 March 2007. This information is stated in accordance with the accounting policies set out on pages 54 to 58.

Directors’ Responsibilities The Directors are responsible for the preparation of financial statements which gave a true and fair view of the financial position of the Company as at 31 March 2007 and the results of its operations and cash flows for the period ended on that date.

Auditors’ Responsibilities It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to the Directors.

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

- The significant estimates and judgements made by the Directors in the preparation of the financial statements;

- Whether the accounting policies are appropriate to the Company’s circumstances, consistently applied and adequately disclosed.

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

Our firm has not provided any services to the Company other than audit related services. BDO Spicers has no other interest in the Company.

Unqualified Opinion We obtained all the information and explanations required. In our opinion:

- Proper accounting records were kept by the Company so far as appeared from our examination of those records;
- The financial statements on pages 50 to 69 that are required by Clauses 23 to 39 of the First Schedule of the Securities Regulations 1983 and that are required to be audited:
 - Comply with these regulations;
 - Subject to these regulations, comply with New Zealand generally accepted accounting practice;
 - Give a true and fair view of the financial position of the Company as at 31 March 2007 and the results of its operations and cash flows for the period ended on that date.

Our audit was completed on 20 April 2007 and our unqualified opinion was expressed as at that date.

Historical Summaries of Financial Statements In respect of the amounts stated pursuant to Clause 8(2) and 8(3) of the First Schedule of the Securities Regulations 1983, included in the historical summaries of financial statements of the Company set out on page 50, in our opinion:

- The amounts have been correctly taken from the audited financial statements of Xero Live Limited for the period to 31 March 2007.

Prospective Financial Information We have examined the prospective financial information set out on pages 46 to 49. The Directors are responsible for the prospective financial information including the assumptions on which it is based.

In our opinion, the prospective financial information, so far as the accounting policies and calculations are concerned, has been properly compiled on the footing of the assumptions made or adopted by the issuer set out on pages 54 to 58 of this Offer Document and is presented on a basis consistent with the accounting policies adopted by the Company.

It is likely that actual results will vary from those forecast and projected since anticipated events frequently do not occur as expected, and these variations may be significant.

We have no responsibility to update our opinion on the prospective financial information for events and circumstances occurring after the date of this report.

Directors' Responsibilities The Directors are responsible for the preparation of this Offer Document, including the financial statements, historical summaries of financial statements, and the prospective financial information contained therein. It is our responsibility to report on the matters contained in this report. BDO Spicers takes no responsibility for, nor do we report on, any part of the Offer Document not mentioned in this report.

Yours faithfully

BDO SPICERS

WELLINGTON, NEW ZEALAND

BDO Spicers

ANSWERS TO IMPORTANT QUESTIONS

WHAT SORT OF INVESTMENT IS THIS?

The Share Offer Xero is offering 15.0 million new fully paid ordinary shares with the ability to accept oversubscriptions of up to a further 3.0 million Shares. Full details of the Share Offer are set out on pages 16 to 19. The Offer Price per Share is \$1.00.

The terms of the new Shares will be identical to the terms of the existing Shares and the new Shares will rank equally in all respects with the existing Shares.

Shares Each Share gives the holder the right to:

- (a) Attend and vote at a meeting of Xero including the right to cast one vote per Share on a poll on any resolution, including but not limited to, a resolution to:
 - appoint or remove a Director or auditor;
 - adopt, revoke or alter Xero's Constitution;
 - approve a major transaction;
 - approve the amalgamation of Xero under section 221 of the Companies Act 1993; and
 - place Xero in liquidation
- (b) Receive an equal share in any distribution, including dividends, if any, authorised by the Board and declared and paid by Xero in respect of that Share.
- (c) Receive an equal share with other Shareholders in the distribution of surplus assets in any liquidation of Xero.
- (d) Be sent certain Company information.
- (e) Exercise the other rights conferred upon a Shareholder by the Companies Act 1993 and the Constitution.

Dividends Xero does not currently anticipate that it will pay a dividend for the foreseeable future. Further details of Xero's dividend policy are set out under the heading "What returns will I get?" on page 74 of this Offer Document.

Listing on NZX Application has been made to NZX for permission to list the Shares, and all the requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document. Initial quotation of the Shares on the NZSX under the symbol XRO is anticipated to occur on 5 June 2007. NZX has authorised Primary Market Participants to act on the Share Offer.

Constitution The information below sets out some of the more material features of the Constitution. It is not an exhaustive list of such features. The Constitution is available for inspection by prospective investors on the Companies Office website at www.companies.govt.nz. In addition, the Constitution incorporates by reference the requirements of NZX as set out in the NZSX Listing Rules and on NZX's website at www.nzx.com.

Restrictions on Directors' powers to issue Shares or options which are convertible or exchangeable into Shares The Directors may issue equity securities with Shareholder approval by ordinary resolution, and without Shareholder approval if made pro-rata to existing Shareholders or under certain permitted procedures.

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

Xero acquiring, or providing financial assistance to purchase, its own Shares Xero may acquire its own Shares, or provide financial assistance in connection with the purchase of its own Shares, provided that:

- Prior approval is obtained from Shareholders by ordinary resolution of each separate group of each class of Shares having rights and entitlements that are materially affected in a similar way by the acquisition or provision of financial assistance.
- The acquisition or provision of financial assistance is effected on a pro-rata basis to existing Shareholders.
- Certain other circumstances exist.

Before any such acquisition or provision of financial assistance, Xero must also satisfy the solvency test under the Companies Act 1993, and the Board must resolve that the acquisition or assistance is in the best interests of Xero and that the terms and conditions on which the acquisition is being made or assistance is being given are fair and reasonable to Xero.

Restricted transactions The NZSX Listing Rules require the approval of Xero's Shareholders by ordinary resolution for the following:

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

- (b) Any transaction that will change the essential nature of Xero's business
- (c) Certain material transactions (generally those having a net value in excess of 5% of the average market capitalisation of Xero) entered into by any member of the Xero Group with, or for the benefit of, the Directors of any company in the Xero Group, substantial Shareholders or their associates.

In addition, section 129 of the Companies Act 1993 requires Shareholder approval by special resolution prior to Xero entering into any transaction (whether by way of an acquisition, disposition or otherwise) involving more than 50% of the value of Xero's assets before the acquisition, disposition or otherwise.

The NZSX Listing Rules also require the approval of Shareholders, by ordinary resolution, for any issue of Shares that would materially increase the ability of any person or group of associated persons to exercise effective control of Xero.

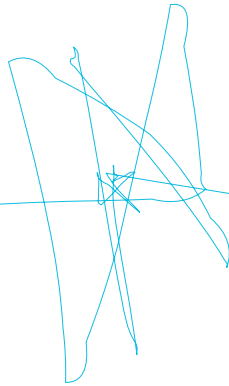
Minority buy out rights If, by special resolution, Xero resolves to:

- (a) alter or revoke its Constitution in a way which imposes or removes a restriction on the activities of Xero;
- (b) approve a major transaction; or
- (c) approve a statutory amalgamation, any Shareholder voting against the resolution is entitled to require Xero to purchase, or to arrange for another person to purchase, the Shares of that Shareholder for a fair and reasonable price nominated by Xero or, if the Shareholder objects to such a price, a price determined by arbitration.

Takeovers Code The Takeovers Code prohibits any person (together with their Associates (as defined in the Takeovers Code)) from becoming the holder or controller of 20% or more of the voting rights in Xero other than in compliance with the requirements of the Takeovers Code. Investors are advised to seek legal advice in relation to any act, omission or circumstance which may result in that investor breaching any provision of the Takeovers Code.

Overseas Investment Act 2005 Any person who is an Overseas Person for the purposes of the Overseas Investment Act 2005 and who intends to acquire more than 25% of the Shares of Xero will be required to obtain the consent of the relevant Minister of the Crown before acquiring those Shares, in accordance with the Overseas Investment Act 2005.

Other Terms of the Shares and the Share Offer The information above is a simplified and general description of some of the rights and obligations of Shareholders. All terms of the Share Offer and the Shares, except those rights and obligations implied by law, are set out in this Offer Document or in the Constitution. The Constitution is available for public inspection at the registered office of Xero at Level 1, Old Bank Chambers, 98 Customhouse Quay, Wellington or on the Companies Office website at www.companies.govt.nz.

**WHO IS INVOLVED IN PROVIDING IT FOR ME?**

Xero is the issuer of the Shares. Xero can be contacted at its registered office, which is located at Level 1, Old Bank Chambers, 98 Customhouse Quay, Wellington.

The principal activity of Xero is the provision of online accounting software. Xero commenced business in July 2006. Further information in respect of the business activities of Xero is contained in sections 2 to 4 of this Offer Document entitled "About Xero" on pages 28 to 35.

HOW MUCH DO I PAY?

The Shares are being offered at the Offer Price of \$1.00 per Share.

Applications to subscribe for Shares must be made on the Application Form in accordance with the instructions set out below and on the page preceding the Application Form. Applications under the Share Offer must be made for a minimum of 1,000 Shares and thereafter in multiples of 500 Shares.

Applications must be accompanied by payment in full for the total number of Shares applied for at the Offer Price of \$1.00 per Share. Cheques must be drawn on a registered New Zealand bank, must be crossed "Not Transferable" and should be made payable to "Xero Share Offer". Applicants must forward their completed Application Forms **by 5.00pm on 30 May 2007** to either:

Xero Share Offer**C/- Link Market Services Limited****PO Box 91976****Auckland 1142****(Level 12, 120 Albert Street Auckland)**

OR to the Lead Broker or any other Primary Market Participant, in sufficient time for the Application Form to reach Link Market Services no later than 5.00pm on 30 May 2007.

Further information on how to apply for Shares is set out in the section of this Offer Document entitled "Application Instructions" on pages 86 to 88.

WHAT ARE THE CHARGES?

Applicants are not required to pay any charges to Xero in relation to the Share Offer, other than the Offer Price of each Share allocated to them.

Shares purchased or sold on the NZSX are likely to attract normal brokerage fees and charges.

Issue expenses (including brokerage fees, share registry expenses, legal fees, investment advisory fees, accounting fees, advertisement costs, printing costs and postage and courier costs relating to the Share Offer) are estimated to amount to \$1.1 million.

This amount assumes that the Share Offer is fully subscribed. Xero will pay all costs associated with the Share Offer.

Xero will pay a fixed brokerage fee of \$240,000 to First NZ Capital Securities Limited. No brokerage will be paid by Xero other than the brokerage fee payable to First NZ Capital Securities Limited.

WHAT RETURNS WILL I GET?

Shares Returns on the Shares may be by way of capital appreciation (although the market price of Shares may also decline) and any dividends paid and other distributions made in respect of the Shares.

The key factors that determine the returns are:

- The market price for Shares.
- The Board's decisions in relation to dividends and other distributions.
- Xero's financial performance.
- Applicable taxes.
- Reserves and retentions.

Nothing contained in this Offer Document should be construed as a promise of profitability, and Xero does not give any guarantee or promise as to the return of capital or the amount of any returns (including dividends and other distributions) in relation to the Shares. The amount of any returns will depend on a number of factors, including those discussed under the heading "What are my risks?" on pages 76 to 77 of this Offer Document. The factors described in that section could reduce or eliminate the distributions or other returns intended to be derived from holding the Shares.

Dividend Policy The Directors have adopted a policy that there will not be any dividend payments or other distributions made for the foreseeable future as surplus funds will be retained in order to capitalise on immediate and future growth opportunities. Accordingly, and until that policy changes, returns on Shares will be limited to the proceeds of sale or other disposition of Shares.

Xero is the entity legally liable to pay any dividends or other distributions declared or made on the Shares.

Sale of Shares Shareholders may benefit from any increase in the market price of their Shares. The price of the Shares may rise or fall due to numerous factors, including:

- (a) general economic conditions, including inflation rates and interest rates;
- (b) variations in the local and global market for listed stocks, in general, or for stocks in the industry in which Xero operates;
- (c) changes to government policy, legislation or regulation;
- (d) the inclusion or removal of the Shares from major market indices;
- (e) the nature of competition in the markets in which Xero operates; and
- (f) Xero's general operational and business performance and profitability risks affecting Xero's business.

No assurances can be made that Xero's market performance will not be adversely affected by any such market fluctuations or any of the above factors. Neither Xero, nor any of its Directors, officers, employees, consultants, agents, partners or advisers guarantees the Shares or Xero's market or financial performance.

There can be no guarantee that an active market in the Shares will develop or that the market price of the Shares will increase. There may be relatively few or many potential buyers or sellers of the Shares on the NZSX at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the price that Shareholders paid for them.

If you sell any of your Shares, the purchaser of those Shares will be legally liable to pay you the sale price of those Shares.

Taxation Implications on Returns New Zealand taxes may affect the return to investors. The following taxation summary addresses the tax implications for investors who are New Zealand residents for New Zealand tax purposes and who will hold Shares acquired through the Share Offer on capital account.

This summary is not intended to be an authoritative or complete statement of the laws applicable. Prospective investors are advised to obtain independent professional advice relevant to their own particular circumstances before investing.

Acquisition of Shares: No stamp duty is payable in New Zealand on Share transfers and no notice of such transfers is required to be given by a Shareholder to New Zealand revenue authorities.

Disposal of Shares: The New Zealand tax system does not include a capital gains tax. Consequently, where the disposal of Shares does not form part of a person's business, amounts derived from the disposal of Shares will generally not be subject to New Zealand income tax. However, there are exceptions to this where the Shares were purchased for the purpose of sale or if the Shares were acquired as part of a profit making undertaking or scheme. Where one of these exceptions applies, the gain (or loss) for the Shareholder will be the difference between the cost of acquiring the Shares and the market value of the consideration received for their disposal.

Gifts of Shares made by a Shareholder domiciled in New Zealand may be subject to New Zealand gift duty.

Gift duty applies at 5% on the excess of gifts over \$27,000 in any 12 month period and arises on a graduated scale to a maximum rate of 25% of the excess amount of gifts over \$72,000.

Dividends: In general, any distribution, including a cash dividend, by Xero in respect of Shares, other than a non-taxable bonus issue of Shares or a return of capital in certain circumstances, will be considered a dividend for New Zealand tax purposes. To the extent that dividends paid by Xero to New Zealand resident Shareholders have less than the maximum allowable imputation credits attached, those dividends will be subject to resident withholding tax at a rate of up to 33%. Any unutilised imputation credits can be credited against tax on other income of that shareholder.

However, resident withholding tax on dividends does not need to be accounted for if the New Zealand resident Shareholder produces to Xero a current certificate of exemption and the certificate continues to be current at the time the dividend is paid. To the extent that Xero pays dividends to a New Zealand resident Shareholder without imputation credits attached, Xero will account for resident withholding tax unless it is satisfied by the Shareholder that this is not required by law. Any resident withholding tax accounted for in respect of a dividend paid to a New Zealand resident Shareholder is able to be credited against the income tax liability of that Shareholder.

WHAT ARE MY RISKS?

Xero is an early stage software business with no specific track record of success for its business or operations. Accordingly, please read all the information in this Offer Document, and talk to a qualified adviser that you trust before deciding whether or not to subscribe for Shares in Xero under this Share Offer.

One of the main principles of investing money is to have a diversified portfolio of investments. Potential investors should carefully consider the size of their application relative to their other investments.

No investment is risk-free and the Shares are no exception.

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

- The price at which the Shares trade may be lower than the price paid for them.
- Investors are unable to sell their Shares because the market for them does not develop, becomes illiquid or ceases to exist.
- Xero does not pay dividends.
- The operational and financial performance of Xero is worse than expected.
- Xero becomes insolvent and is placed in receivership or liquidation.

The Shares will be fully paid ordinary shares and Shareholders will have no liability to make any further payment in respect of their Shares. In the event of insolvency of Xero, Shareholders would not receive any payment in respect of their Shares until Xero had paid all its other creditors, both secured and unsecured, including the costs of liquidation or receivership. Any funds remaining after the payment of Xero's debts in full would be distributed to Shareholders in proportion to their respective shareholdings. As a result, Shareholders may receive less than the amount initially invested by them.

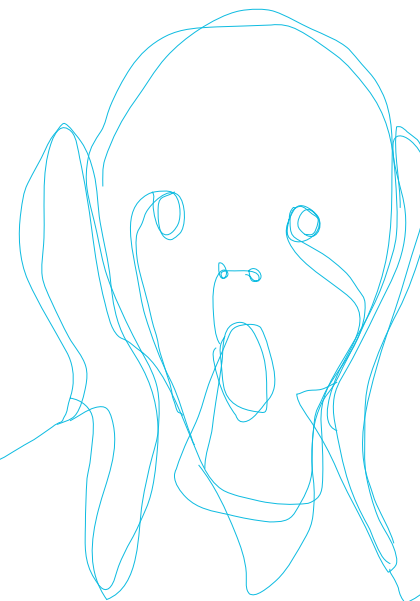
Risks Relating to the Start-up Nature of Xero Xero is a start-up technology business. It has engaged in minimal trading as at the date of this Offer Document and is essentially an enterprise that is based on an idea (i.e. dealing efficiently with sensitive accounting data online) that has been developed into a business proposition by motivated people with the desire to make that idea successful.

Accordingly, it is very much a high risk investment at this early stage. There is no specific track record of success for Xero's business or operations nor any certainty that its business plan and strategies will be successful. The key risk factors for Xero, as a start-up business, include:

- *Unproven market for its product offering* – The market for its software is at an early stage of development and demand for its products/services is uncertain. It does not have any experience of its sales cycle nor how to manage that cycle effectively. It currently relies on a single product offering. The failure of that product to achieve and maintain market acceptance would adversely

affect its business. If it fails to develop new products/services in a timely manner then its revenues will be adversely affected. This would also impact on its ability to deploy its products/services successfully.

- *Product distribution* – If Xero encounters difficulty in establishing a distribution network, both in New Zealand and, potentially, internationally, then this would have a negative impact on demand for its products/services.
- *Failure to compete* – Xero may not be able to compete successfully against its current, and any future, competitors. The potential response of Xero's competitors to its initial product offering, and future products/services, is unknown.
- *Failure to deal with growth* – If Xero's business grows rapidly and Xero fails to properly manage that growth, then that failure could harm its business. It has limited experience in managing back office routines and supporting a large customer base. Any failure to meet customer demand properly could adversely affect the business, including demand for Xero's products/services, revenue collection, customer satisfaction and public perception.
- *Failure to retain personnel* – Any failure to generally attract, retain and effectively manage qualified personnel could adversely affect its business. In particular, Xero has been dependent, in its initial stages, on the experience, expertise of its Founders – Rod Drury, its Chief Executive Officer, and Hamish Edwards, its Chief Financial Officer. Over time, Xero's reliance on Rod and Hamish, and their experience and expertise and understanding of Xero's business and strategy, will reduce as Xero's



management team grows and becomes more established. However, for the foreseeable future, Xero will be dependent on the continued involvement and commitment of Rod and Hamish. The loss of one or both of them, for whatever reason, could have an adverse effect on Xero and its prospects.

- *Loss-making for foreseeable future* – Xero will be very much focusing on establishing and then growing its business. Accordingly, it expects to make losses and have negative cash flow in the short to medium term.
- *Lack of additional funding* – It may require additional funding to maintain and/or expand its business, and such funding may not be available on favourable terms or may not be available at all.

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

- *Patent applications from unrelated parties* – Xero has not applied to register any patents for the intellectual property that it has developed. The intellectual property under development or in use by Xero may be subject to patent applications by unrelated parties in New Zealand or in other jurisdictions, with the result that Xero may, in carrying out its business activities, infringe the patents of such parties. Alternatively, other parties may develop and patent other very similar,

potentially substitutable products, processes or technologies. Such events may be outside the control of Xero and may have adverse consequences for its business. Xero has developed an Intellectual Property Strategy to deal with such matters to the extent practicable.

- *Patent coverage* – There is a risk that any patents Xero may seek to have registered in the future may not, for whatever reason, be registered in New Zealand or any other particular jurisdiction.
- *Dependence on the Internet* – Xero's business is based on online applications. Accordingly, its business is dependent on the continued existence and functionality of the Internet.
- *Security risks* – Xero is reliant on data transmission over the Internet. While best practices are adopted by Xero, there will be new security threats by third parties on an ongoing basis. Any security risks that cannot be mitigated by Xero may adversely affect sales, or potential sales, of its products/services.
- *Third party failure* – Xero is reliant on a number of third parties to provide essential services on an outsourced basis. A failure for any reason by any of these suppliers to provide those services or a failure of their systems may adversely affect Xero's ability to provide services to its customers.
- *Exchange rate risk* – It is likely that in the future, if Xero is successful and expands into international markets, it will derive some or most of its revenues and costs in those international markets, implying significant exposure to foreign exchange movements.

- *Market volatility of technology stocks* – The market prices of technology stocks are, historically, particularly volatile, including in response to changes in stock markets, or the technology industry, generally.

General Market Risks Prior to this Share Offer, there has been no public market for the Shares. There can be no assurance that an active trading market in the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the NZSX at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares.

Factors such as changes in the New Zealand or international regulatory environment (including for accounting), New Zealand and international equity markets, New Zealand dollar and foreign currency movements and the New Zealand and global economy, could cause the market price of the Shares to fluctuate. These fluctuations may adversely affect the market price of the Shares after the Share Offer.

CAN THE INVESTMENT BE ALTERED?

The full terms of the Share Offer, including the amounts payable on application, are described on pages 16 to 19 of this Offer Document.

Those terms may be altered by Xero by filing an amendment to the Prospectus with the Registrar of Companies. However, those terms cannot be altered without an Applicant's consent after an application has been accepted and Shares allotted to the Applicant.

The rights attaching to Shares are governed by the Constitution and the Companies Act. The Constitution may only be altered by a special resolution of Shareholders, subject to the rights of interest groups under the Companies Act, or in certain circumstances by court order. Section 117 of the Companies Act restricts Xero from taking any action which affects the rights attached to the Shares unless that action has been approved by a special resolution of Shareholders whose rights are affected by the action. A special resolution must be approved by a majority of at least 75% of the relevant Shareholders entitled to vote and voting on that resolution. Under certain circumstances, a Shareholder whose rights are affected under an action approved by a special resolution may require Xero to purchase its Shares.

HOW DO I CASH IN MY INVESTMENT?

Under certain provisions in the Companies Act 1993, the Shares could be cancelled by Xero by a reduction of capital, share buy-back or other form of capital reconstruction. Subject to this, neither the Shareholders, Xero, nor any other person has any right to terminate, cancel, surrender, or otherwise make or obtain payment from the Shares, other than as referred to in this Offer Document under the section titled "What returns will I get?".

Shares will be tradeable subject only to compliance with the Constitution, the NZSX Listing Rules, applicable laws (including the Takeovers Code, the Securities Act 1978 and the Overseas Investment Act 2005) and the continuation of an active trading market. As at the date of preparation of this Offer Document, there is no established market for the Shares. However, in Xero's opinion, a market for the Shares is likely to develop on completion of the Share Offer. No charges are payable to Xero in respect of any sale of Shares. Any sale of Shares on the NZSX will attract normal brokerage fees.

Application has been made to NZX for permission to list the Shares and all the requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statements in this Offer Document.

Shares allocated under the Share Offer are expected to be quoted and tradeable on the NZSX under the symbol XRO from 5 June 2007. Applicants should not attempt to sell Shares until they know whether and if so, how many, Shares have been allocated to them. None of Xero nor any person associated with the Share Offer, nor any of their respective directors, officers, employees, consultants, agents, partners or advisers, accepts any liability or responsibility should any person attempt to sell or otherwise deal with Shares before a statement of their initial holding is received by that person.

WHO DO I CONTACT WITH ENQUIRIES ABOUT MY INVESTMENT?

Any enquiries about the Shares should be directed to:

the Share Registrar;
Link Market Services Limited,
PO Box 91976, Auckland, 1142
Level 12, 120 Albert Street Auckland

Investor enquiries: (09) 375 5998
Facsimile: (09) 375 5990

OR

PO Box 384, Ashburton
138 Tancred Street, Ashburton

Investor enquiries: (03) 308 8887
Facsimile: (03) 308 8867

Email enquiries: lmsenquiries@linkmarketservices.com
Website: www.linkmarketservices.com

the Company:
Level 1
Old Bank Chambers
98 Customhouse Quay
Wellington
Phone: (04) 819 4800
Facsimile: (04) 819 4801

IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?

Complaints about the Shares can be directed to the Share Registrar at the address shown under the heading “Who do I contact with enquiries about my investment?”. There is no ombudsman to whom complaints can be made about this investment.

WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

Offer Document and Financial Statements This Offer Document comprises both a prospectus and an investment statement in respect of the Share Offer. Other information about the Shares and Xero is contained or referred to in the other sections of this Offer Document and in Xero’s financial statements.

This Offer Document, Xero’s most recent financial statements, the Constitution and the material contracts referred to on pages 80 to 85 of this Offer Document may be inspected, free of charge, during normal business hours at Xero’s registered office at Level 1, Old Bank Chambers, 98 Customhouse Quay, Wellington.

Those documents and other documents of, or relating to, Xero are also filed on a public register which can be accessed on the Companies Office website at www.companies.govt.nz or freephone 0508 266 726.

Ongoing Reports to Shareholders Shareholders will receive periodic statutory reports, including annual reports (including annual audited financial statements) and half-year reports (including unaudited half-year financial statements) and other Shareholder communications.

The Company is also required to make half-yearly and annual announcements to NZX, and such other announcements as are required by the NZSX Listing Rules from time to time.

On Request Information Shareholders are also entitled to request copies of the following documents under section 54B of the Securities Act 1978:

- (a) The most recently published financial statements of Xero and all documents that are required to be incorporated in, attached to, or accompany, those financial statements.
- (b) Xero’s most recent annual report.
- (c) This Offer Document.
- (d) A comparison of actual results against the prospective financial information set out in this Offer Document, once available.
- (e) Any other information that may be requested under regulation 23A of the Securities Regulations 1983.

This information will be made available to Shareholders, free of charge, upon a request in writing being made to Xero at its registered office at Level 1, Old Bank Chambers, 98 Customhouse Quay, Wellington.

STATUTORY INFORMATION

THE INFORMATION IN THIS SECTION IS INCLUDED IN ACCORDANCE WITH THE REQUIREMENTS OF THE FIRST SCHEDULE TO THE SECURITIES REGULATIONS. THE PARAGRAPH NUMBERS BELOW CORRESPOND WITH THE CLAUSE NUMBERS OF THE FIRST SCHEDULE OF THE SECURITIES REGULATIONS.

1. MAIN TERMS OF SHARE OFFER The issuer of the Shares is Xero Live Limited, which has its registered office at Level 1, Old Bank Chambers, 98 Customhouse Quay, Wellington.

The Shares being offered are fully paid, ordinary shares in Xero. A summary of the Shares being offered is set out on pages 16 to 19 under the heading “Details of the Share Offer”.

The maximum number of Shares being offered under the Share Offer is 18.0 million including over-subscriptions of up to 3.0 million Shares. The Offer Price for the Shares is \$1.00 per Share.

2. NAME AND ADDRESS OF OFFEROR Not applicable.

3. DETAILS OF THE INCORPORATION OF XERO Xero was incorporated in New Zealand on 6 July 2006 under the Companies Act 1993. The Company’s registration number is 1830488. Xero changed its name from Accounting 2.0 Limited to Xero Live Limited on 6 November 2006.

The public register relating to Xero is available for inspection on the Companies Office website at www.companies.govt.nz.

4. PRINCIPAL SUBSIDIARIES OF XERO As at the date of this Offer Document, there are no subsidiaries of Xero.

5. DIRECTORATE AND ADVISERS The name, technical or professional qualifications and city of residence of each Director of Xero are set out on pages 38, 39 and 43.

The Directors can be contacted at the registered office of Xero at Level 1, Old Bank Chambers, 98 Customhouse Quay, Wellington.

Rod Drury and Hamish Edwards are the only Directors who are also employees of Xero.

Rod is the Chief Executive Officer and Hamish is the Chief Financial Officer.

No Director of Xero has been adjudged bankrupt during the five years preceding the date of this Offer Document.

The name and address of each of Xero’s auditor and securities registrar, and the Primary Market Participants and solicitors who have been involved in the preparation of this Offer Document, are set out in the Directory.

Ernst & Young, Chartered Accountants, whose address is Majestic Centre, 100 Willis Street, Wellington, have given and have not, before delivery of a copy of this Offer Document for registration, withdrawn its consent to the distribution of this Offer Document with the references to its independent market research being included in the form and context in which those references have been included. Ernst & Young may be retained by Xero to provide professional services to it in the future.

5A. RESTRICTIONS ON DIRECTORS’ POWERS

The Constitution incorporates by reference the requirements of the NZSX Listing Rules. The principal modifications, exceptions or limitations on the powers of the Board imposed by the Constitution (including the requirements of the NZSX Listing Rules incorporated into the Constitution) are as follows:

- (a) the Board may not issue or acquire any equity securities except in accordance with the provisions of the Constitution and the NZSX Listing Rules;
- (b) the Board may not give financial assistance for the purpose of, or in connection with, the acquisition of equity securities issued or to be issued, except in limited circumstances and in accordance with the provisions of the Constitution and the NZSX Listing Rules;

Shareholder	Connected Director or Xero employee	Consideration paid (\$)	Number of Shares post share split and pre IPO	%
Anna Stuck and Kenneth Drury	Rod Drury	1,063,277	24,668,025	61.7%
Hamish Edwards, Tineke Edwards and Andrew Finch	Hamish Edwards	300,000	6,960,000	17.4%
Anna Grigg, Alastair Grigg and Claymore Trustees Limited (2)	Alastair Grigg	400,000	1,600,011	4.0%
Jasmine Investment Holdings Limited	Sam Morgan	200,000	800,006	2.0%
W5 Limited	Rowan Simpson	200,001	800,006	2.0%
Craig Walker and Catherine Walker (1)	Craig and Catherine Walker	44,998	659,994	1.6%
Anthony Bishop and Andrew Finch	Anthony Bishop	150,000	599,998	1.5%
Edward Robinson and Catherine Robinson (1)	Catherine Robinson	20,000	464,000	1.2%
Fletcher Brown and Karen Oakley-Harress (1)	Fletcher Brown	20,000	464,000	1.2%
Philip Fierlinger, Hadley Fierlinger and Murray Harden (1)	Philip Fierlinger	20,000	464,000	1.2%
Graham Shaw and Delwyn Shaw	Graham Shaw	111,000	444,002	1.1%
Phil Norman (2)	Phil Norman	100,000	399,968	1.0%
Clive Carter and James Carter	Hamish Carter	60,001	240,004	0.6%
Guy Haddleton	Guy Haddleton	50,002	200,007	0.5%

Note: (1) these four parties invested in the initial investment round, along with the Founders. (2) these two parties acquired existing shares from Anna Stuck and Kenneth Drury (the "Drury Interests"). (None of the persons named above guarantees, or undertakes any liability in respect of, the Shares.)

- (c) the Board may not cause Xero to enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of Xero which would change the essential nature of the business of Xero in respect of which the gross value is in excess of 50% of the average market capitalisation of Xero, without the prior approval of an ordinary resolution of Shareholders; and
- (d) the Board may not allow Xero to enter into certain material transactions with related parties if that

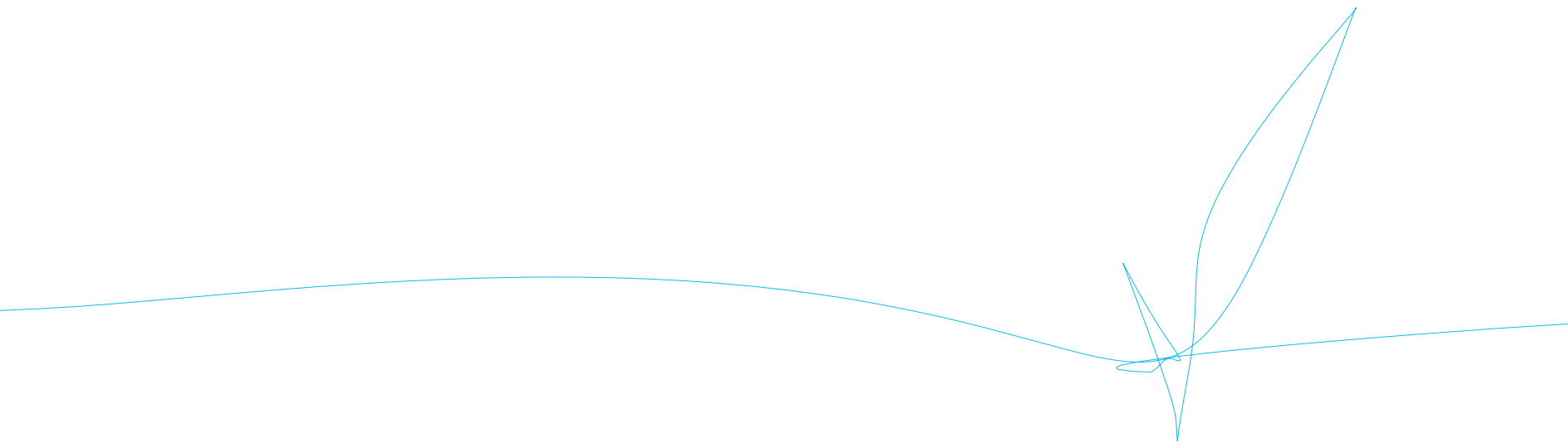
related party is, or is likely to become, a direct or indirect party to the material transaction without the prior approval of an ordinary resolution of Shareholders.

In addition, Directors may not vote on any matter in which he or she is interested unless permitted by the Companies Act and the NZSX Listing Rules where he or she has complied with the relevant provisions and signed a certificate in respect of the matter.

The Companies Act contains a number of other provisions that could have the effect, in certain circumstances, of imposing modifications,

exceptions or limitations on the powers of the Board. For example, Directors cannot allow the Company to enter into any major transaction (as that term is defined in the Companies Act) without the prior approval of a special resolution of Shareholders. These provisions apply to any company registered under the Companies Act.

6. SUBSTANTIAL EQUITY SECURITY HOLDERS OF ISSUER The table above sets out the names of the 14 largest registered holders of Shares as at the date of this Offer Document.



Relevant Interest Holder	No. of Shares	Nature of Relevant Interest	Consideration and other Terms
Anna Stuck and Kenneth Drury	1,063,277	Legal and registered title held as trustees of the Rodanna Ventures Trust for the benefit of the Rodanna Ventures Trust (being Anna Stuck and Rodney Kenneth Drury and present and future members of their family) in favour of whom the trustees may exercise their discretion from time to time.	\$1,063,277
Hamish Edwards, Tineke Edwards and Andrew Finch	300,000	Legal and registered title held as trustees of the HnT Trust for the benefit of the HnT Trust (being Hamish Edwards and Tineke Edwards and present and future members of their family) in favour of whom the trustees may exercise their discretion from time to time.	\$300,000

Note: The above information is stated as at 9 May 2007 and pre-dates and does not take into account the share split of 23.2 for one undertaken by Xero on 9 May 2007. Rod Drury and Hamish Edwards have also disclosed that they have a relevant interest in the Shares held by their respective trusts. (None of the persons named above guarantees, or undertakes any liability in respect of, the Shares.)

The Founders together with the four founding employees contributed initial capital of \$1.5 million to establish the Company.

In March 2007, a further \$1.3 million was raised by the issue of Shares to selected current or proposed employees and the Independent Directors to provide additional working capital to fund the business for several months, including through the Share Offer. In setting the issue price for the issue of those Shares, the Board took into account, amongst other factors, the status of the business at the time and, in the case of selected employees, the need to incentivise them.

None of the Shares issued under these two internal capital raising rounds nor the Shares purchased from the Drury Interests, can be disposed of by their holders during the 12 months following the quotation of the Shares on the NZSX. Furthermore, there is no sale of any of those Shares under this Share Offer.

The Independent Directors intend to subscribe, in aggregate, for a further \$1.35 million under the Share Offer at the Offer Price.

As required by Listing Rule 7.1.15, on 10 May 2007, Xero required all registered holders of 5% or more of the voting securities of Xero to disclose any relevant interest and the nature of that relevant interest held by them and the consideration and other terms and conditions or any transaction under which they acquired their shares. Those holders provided the disclosures above.

7. DESCRIPTION OF ACTIVITIES OF THE ISSUING

GROUP Xero is the “issuing group” for the purposes of the Securities Regulations. Xero was incorporated on 6 July 2006. Since incorporation, the principal activities of Xero have been to develop its online accounting software solution for SMEs, to “beta test” this product offering and to begin selling this product offering to an initial pool of customers. Further information about the business activities of the Company is set out in the section of this Offer Document entitled “About Xero” on pages 28 to 35.

The principal fixed assets of Xero are the furniture and fittings, computers and office equipment used by Xero staff at Xero’s office premises, all of which are owned or held under lease or licence by Xero.

8. SUMMARY OF FINANCIAL STATEMENTS

Financial statements, in summary form, for Xero in respect of the accounting period ending 31 March 2007 are set out under the heading “Historic Financial Information” on pages 50 to 69 of this Offer Document.

The information contained in the summary of financial statements for the nine months ending 31 March 2007 is derived from the audited financial statements for Xero for that period.

9. PROSPECTS AND FORECASTS A statement as to the trading prospects of Xero, together with any relevant material information that may be relevant to those prospects, is set out in the section of this Offer Document entitled “About Xero” on pages 28 to 35 and, more particularly, in the section entitled “Prospective Financial Information” on pages 46 to 49.

Any special trade factors and risks which could materially affect the prospects of Xero and which are not likely to be known or anticipated by the general public are set out under the heading “What are my risks?” on pages 76 to 77.

It is not the purpose of the Share Offer to provide finance for any particular capital project.

10. PROVISIONS RELATING TO INITIAL FLOTATIONS

The plans of the Directors in respect of Xero during the 12 month period commencing on the date of this Offer Document are to focus on marketing and distributing the Xero product offering to the three initial key markets identified: New Zealand, the UK and Australia (as further described under the heading “About Xero” on pages 28 to 35).

The source of finance required for these plans will be funds received from the issue of new Shares pursuant to the Share Offer, operating cash flows, working capital and borrowings and other financial accommodation considered prudent and appropriate by the Company during that year.

Notwithstanding the plans of the Directors, the proceeds of the Share Offer may be applied towards any other undertaking in which Xero may lawfully engage.

The prospective statement of cash flows of Xero which the Directors expect to occur in the period beginning on the date of registration of this Offer Document and ending on 10 May 2008 is set out under the heading “Prospective Financial Information” on pages 46 to 49.

For the purposes of section 37(2) of the Securities Act 1978, the minimum amount that, in the opinion of the Directors, must be raised in order to provide the sums required to be provided in respect of:

- (a) the purchase price of any property to be purchased which is to be defrayed in whole or in part out of the proceeds of the Share Offer;
 - (b) any preliminary expenses or commission;
 - (c) working capital; and
 - (d) the repayment of any money borrowed by the Company in respect of any of the foregoing matters,
- is \$10.0 million.

11. ACQUISITION OF BUSINESS OR SUBSIDIARY No business or subsidiary has been acquired by Xero in the two years prior to the date of registration of this Offer Document.

12. SECURITIES PAID UP OTHERWISE THAN IN CASH

Xero has not, within the five years preceding the date of registration of this Offer Document, allotted to any person any securities paid up otherwise than in cash.

13. OPTIONS TO SUBSCRIBE FOR SECURITIES OF THE COMPANY

No options to subscribe for securities of Xero have been granted to any person by or on behalf of Xero. However, it is proposed that options will be granted to certain employees in the future under an employee share option plan that has been established by Xero. Details of this plan are set out at section 4 of this Offer Document.

14. APPOINTMENT AND RETIREMENT OF DIRECTORS

None of the existing Directors of Xero has been appointed to the Board in a manner that is materially different from that specified in sections 153 and 155 of the Companies Act.

Xero’s Constitution contains no provisions concerning the retirement age of Directors.

No person (other than the Shareholders of Xero in a general meeting or the Directors acting as a Board to fill a casual vacancy) has the right to appoint any Director.

Each Director has the power to appoint any person as an alternate Director, who may be any person not disqualified under the Companies Act from holding the position of a director of a company and who is approved by a majority of the other Directors.

15. DIRECTORS’ INTERESTS Except for Rod Drury and Hamish Edwards, no Director of Xero is entitled to any remuneration from Xero other than by way of Directors’ fees, consulting fees, and reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as a Director.

Rod Drury is Chief Executive Officer of Xero and Hamish Edwards is Chief Financial Officer of Xero, each providing management and executive services to Xero. Rod Drury has a remuneration package of \$225,000 per annum for his role as Chief Executive Officer. Hamish Edwards has a remuneration package of \$200,000 per annum for his role as Chief Financial Officer.

Xero has granted its Directors an indemnity to the maximum extent permitted by the Companies Act and the Constitution. Xero maintains insurance for its Directors to the maximum extent permitted by the Companies Act.

No retirement benefits are payable by Xero to the Directors. No compensation is payable by Xero to the Directors for loss of office.

No material transactions (within the meaning of the Securities Regulations) have been entered into by Xero, during the five years preceding the date of this Offer Document or are to be entered on or after that date, with any director or any of the other persons described in clause 15(4) of the First Schedule to the Securities Regulations.

16. PROMOTER'S INTERESTS There is no Promoter of the Shares offered under this Offer Document.

17. MATERIAL CONTRACTS Xero has entered into the following material contracts:

- (a) a deed of embargo, dated 10 May 2007, with Anna Stuck and Kenneth Drury in respect of the Shares held by them;
 - (b) a deed of embargo, dated 10 May 2007, with Hamish Edwards, Tineke Edwards and Andrew Finch in respect of the Shares held by them; and
 - (c) a letter of engagement, dated 10 May 2007, with First NZ Capital Securities Limited for the provision of services as Lead Broker and Joint Organising Sponsor.
- Apart from the contracts set out above, Xero has not entered into any other material contracts (not being contracts entered into in the ordinary course of business) during the two years preceding the date of registration of this Offer Document.

18. PENDING PROCEEDINGS There are no legal proceedings or arbitrations pending as at the date of registration of this Offer Document that may have a material adverse effect on Xero.

19. PRELIMINARY AND ISSUE EXPENSES Issue expenses (including brokerage and commission fees, management fees, share registry expenses, legal fees, accounting fees, advertising costs, printing costs and postage and courier costs relating to the Share Offer) are estimated to amount to an aggregate of \$1.1 million.

This assumes that the Share Offer is fully subscribed. Xero will pay all costs associated with the Share Offer.

Xero will pay a fixed brokerage fee of \$240,000 to First NZ Capital Securities Limited. No brokerage will be paid by Xero other than the brokerage fee payable to First NZ Capital Securities Limited.

No preliminary expenses have been incurred by Xero.

20. RESTRICTIONS ON XERO There are no restrictions on the ability of Xero to make a distribution or to borrow, being restrictions which result from any undertaking given or any contract or debt entered into by Xero.

21. OTHER TERMS OF SHARE OFFER AND SECURITIES

All of the Terms of the Share Offer, and all the terms of the Shares, are set out in this Offer Document, other than those implied by law or which are set out in a document that has been registered with a public official, are available for public inspection and is referred to in this Offer Document.

22-38. FINANCIAL STATEMENTS Audited financial statements of Xero required by clauses 22 to 37 of the First Schedule to the Securities Regulations for the year ended 31 March 2007 are set out in the section of this Offer Document entitled "Historic Financial Information" on pages 50 to 69.

39. PLACES OF INSPECTION OF DOCUMENTS

The Constitution of Xero and, subject to the following paragraph, copies of the material contracts referred to above under the heading "Material Contracts", may be inspected (without charge) during the period of the Share Offer during normal business hours at the registered office of Xero at Level 1, Old Bank Chambers, 98 Customhouse Quay, Wellington. Copies of those documents are also available for public inspection on the Companies Office at www.companies.govt.nz. If a document is not available on the Companies Office website, a request can be made for it by calling toll free on 0508 226 726.

40. OTHER MATERIAL MATTERS There are no other material matters relating to the Share Offer, other than those set out in this Offer Document and in contracts entered into in the ordinary course of business of Xero.

41. DIRECTORS' STATEMENTS The Directors of Xero, after due inquiry by them in relation to the period between 31 March 2007 and the date of registration of this Offer Document, are of the opinion that no circumstances have arisen that materially adversely affect the trading or profitability of Xero, the value of Xero's assets or the ability of Xero to pay its liabilities due within the next 12 months.

42. AUDITOR'S REPORT The Auditor's report required by clause 42 of the First Schedule to the Securities Regulations is set out in the sections of this Offer Document entitled "Auditor's Report" on pages 70 to 71.

SIGNED BY OR ON BEHALF OF EACH DIRECTOR OF XERO LIVE LIMITED:

RODNEY KENNETH DRURY



HAMISH CRAIG EDWARDS



PHILIP JOHN NORMAN



GRAHAM JOHN SHAW



JOHN DAVID GUY HADDLETON



SAMUEL GARETH MORGAN



APPLICATION INSTRUCTIONS

YOU SHOULD READ THIS OFFER DOCUMENT CAREFULLY BEFORE COMPLETING THE APPLICATION FORM INCLUDED WITH AND FORMING PART OF THIS OFFER DOCUMENT. APPLICATIONS FOR SHARES MUST BE MADE ON THE APPROPRIATE APPLICATION FORM ACCOMPANYING THIS OFFER DOCUMENT.

GENERAL

Applications must be for a minimum of \$1,000.

Applications for Shares may be lodged from the opening date of the Share Offer on 14 May 2007. The Share Offer will remain open until 5.00pm on 30 May 2007; or such other date as Xero may determine. An Application must be completed in full and may be rejected if any details are not entered. Xero reserves the right to decline any Application, in whole or in part, without giving any reason. Xero's decision as to whether to reject the Application, or to treat it as valid (and then how to construe, amend or complete the Application Form) will be final.

An Application will constitute an irrevocable offer by the Applicant to subscribe for and acquire the number of Shares specified on the Application Form (or such lesser number which Xero may determine) on the terms and conditions set out in this Offer Document and on the Application Form. By submitting an Application Form, Applicants agree to be bound by these terms and conditions and Xero's Constitution. Xero's and the Joint Organising Sponsors' decision on the number of Shares to be allotted to any Applicant will be final.

None of Xero, the Joint Organising Sponsors, the Lead Broker or any of their respective officers, employees or advisers accept any liability or responsibility should any person attempt to sell or otherwise deal with the Shares before the statements confirming Allotments are received by the Applicants for the Shares.

THE APPLICATION FORM

Please complete all relevant sections of the Application Form using CAPITAL BLOCK LETTERS.

1. Insert your details

- (a) Enter your FULL NAME. Up to three Applicants may apply jointly. Enter your POSTAL ADDRESS for all correspondence. All communications to you from Xero (statements, distribution cheques, periodic reports, correspondence etc) will be mailed to you at the address as shown. For joint Applicants, only one address is to be entered. Please let us know your TELEPHONE NUMBER(S) in case we need to contact you in relation to your Application.
- (b) Insert the NUMBER OF SHARES you wish to apply for and the DOLLAR AMOUNT of payment attached.
- (c) If you currently have a Common Shareholder Number (CSN), please enter it in the box provided. The application must be made in the same name as the CSN for the CSN to apply to this holding.
- (d) Enter your IRD NUMBER
- (e) Read the declaration carefully and SIGN the Application Form. It must be signed by Applicants personally. Joint Applicants must all sign the Application Form. Companies or other bodies corporate must sign in the same way as they would sign a formal deed or other formal legal document. Applications may, in either case, be executed by an attorney. If your Application Form is signed by an attorney, the power of attorney document is not required to be lodged, but the attorney must complete the certificate in section E of Application Form.
- (f) Ensure your Application Form and payment is received at the address specified by 5.00pm on 30 May 2007.

2. Payment

Full payment for the Shares applied for in the Application Form at the Offer Price of \$1.00 per share must accompany each Application Form. Payment must be made by a cheque drawn on a New Zealand bank, for New Zealand dollars, for value immediately. Post-dated cheques will not be accepted. Please ensure that the total of the cheque equals the amount payable. If the accompanying payment is for the wrong amount, your Application (at Xero's discretion) may or may not be treated as valid. Make the cheque payable to Xero Share Offer and cross it Not Transferable.

Sufficient cleared funds should be held in your account as cheques returned unpaid are likely to result in your Application being rejected or your Allotment being cancelled. Staple your cheque to the Application Form.

Until the issue of Shares, Application money will be held in a separate account for your and Xero's benefit, according to the respective entitlements. Money received in respect of Applications which are declined in whole or part will be refunded in whole or part (as the case may be) by 8 June 2007. Interest will not be paid on any Application money refunded.

3. Delivery

Applications cannot be revoked or withdrawn. Application Forms must be mailed or delivered with payment to arrive before **5.00pm on 30 May 2007** to either:

Xero Share Offer
C/- Link Market Services Limited
PO Box 91976, Auckland 1142
Level 12, 120 Albert Street, Auckland.

OR to the Lead Broker or any other Primary Market Participant, in sufficient time for the Application Form to reach Link Market Services by no later than 5.00pm on 30 May 2007.

Please lodge your Application Form **AS SOON AS POSSIBLE** in the event that the Share Offer closes earlier.

4. Personal information

Personal information provided by you in completing the Application Form will be held by the Share Registrar. The information will be used by the Share Registrar and Xero for administration purposes relating to your Application and, where applicable, issue and holding of Shares. If you do not provide all information required by the Application Form, Xero may decline to accept your Share Offer to subscribe for Shares. Pursuant to the Privacy Act 1993, you have a right of access to, and correction of, the personal information held about you. The addresses of each of the Share Registrar and Xero are set out in the directory on the inside back cover of this Offer Document.

APPLICATION FORM

XERO LIVE LIMITED

ADVISER'S CODE

BROKER'S STAMP

This Application Form is issued with the combined Prospectus and Investment Statement dated and prepared as at 11 May 2007 (the "Offer Document") for the offer of fully paid ordinary shares ("Shares") in Xero Live Limited ("Xero"). Before completing this Application Form, applicants should read the Offer Document.

A APPLICATION DETAILS - PLEASE PRINT IN BLOCK LETTERS

TITLE: FIRST NAME(S): FAMILY NAME:

TITLE: FIRST NAME(S): FAMILY NAME:

TITLE: FIRST NAME(S): FAMILY NAME:

ON ACCOUNT:

OR CORPORATE NAME:

Postal Address: Telephone (Home):

Telephone (Work):

Email Address:

B APPLICATION - IMPORTANT

Applications must be accompanied by payment in full. Payment must be by a cheque or bank draft payable to "Xero Share Offer" and crossed "Not Transferable". **Payment must be in New Zealand currency.** Applications must be for a minimum of 1,000 shares (i.e. \$1000) and, thereafter, in multiples of 500 shares (i.e. \$500).

NUMBER OF SHARES APPLIED FOR: CHEQUE OR BANK DRAFT ATTACHED FOR: \$

C SHAREHOLDER NUMBER:

IF YOU CURRENTLY HAVE A COMMON SHAREHOLDER NUMBER (CSN), PLEASE ENTER IT HERE:

D IRD NUMBER

ONLY ONE IRD NUMBER IS REQUIRED IN RESPECT OF JOINT APPLICATIONS

E SIGNATURE(S) OF APPLICANT(S)

I/We hereby acknowledge that I/we have received and read the Offer Document, and apply for the number of fully paid ordinary Shares shown above and agree to accept such Shares (or such lesser number as may be allotted to me/us) on and subject to the terms and conditions set out in the Offer Document and on the terms set out in the Application Instructions:

SIGNATURE APPLICANT: SIGNATURE APPLICANT: SIGNATURE APPLICANT:

DATE: DATE: DATE:

TEAR APPLICATION FORM HERE

FORM CONTINUED ON REVERSE

APPLICATION FORM CONTINUED

F SEND APPLICATION FORM AND CHEQUE OR BANK DRAFT TO BY 5.00PM ON 30 MAY 2007 TO:

Xero Share Offer
Link Market Services Limited
PO Box 91976, Auckland 1142
Level 12, 120 Albert Street, Auckland

OR to the Lead Broker or any other Primary Market Participant, in sufficient time for the Application Form to reach Link Market Services by 5.00pm on 30 May 2007.

G CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY: (Complete this section if you are acting on behalf of someone for whom you have Power of Attorney)

I, _____ (Name of Attorney)

Of _____ (Address and Occupation of Attorney)

HEREBY CERTIFY:

1. THAT, by Power of Attorney dated the _____ day of _____ the ('Donor') appointed me his/her/its Attorney on the terms and conditions set out in the Power of Attorney.
2. THAT I have executed the application for Shares printed on this Application Form under the Power of Attorney and pursuant to the powers thereby conferred on me.
3. THAT at the date of this certificate I have not received any notice or information of the revocation of that Power of Attorney by death (or winding up) of the Donor or otherwise.

Signed at _____ this _____ day of _____ 2007

Signature of Attorney _____

H CERTIFICATE OF NON-REVOCATION OF AGENCY: (Complete this section if you are acting as agent for someone)

I, _____ (Name of Agent)

Of _____ (Address and Occupation of Agent)

HEREBY CERTIFY:

1. THAT, by Agreement dated the _____ day of _____ the ('Donor') appointed me his/her/its Agent on the terms and conditions set out in the Agreement.
2. THAT I have executed the application for Shares printed on this Application Form under the Appointment and pursuant to the powers thereby conferred on me.
3. THAT at the date of this certificate I have not received any notice or information of the revocation of that Appointment by death (or winding up) of the Donor or otherwise.

Signed at _____ this _____ day of _____ 2007

Signature of Agent _____

APPLICATION FORM

XERO LIVE LIMITED

ADVISER'S CODE

BROKER'S STAMP

This Application Form is issued with the combined Prospectus and Investment Statement dated and prepared as at 11 May 2007 (the "Offer Document") for the offer of fully paid ordinary shares ("Shares") in Xero Live Limited ("Xero"). Before completing this Application Form, applicants should read the Offer Document.

A APPLICATION DETAILS - PLEASE PRINT IN BLOCK LETTERS

TITLE: FIRST NAME(S): FAMILY NAME:

TITLE: FIRST NAME(S): FAMILY NAME:

TITLE: FIRST NAME(S): FAMILY NAME:

ON ACCOUNT:

OR CORPORATE NAME:

Postal Address: Telephone (Home):

Telephone (Work):

Email Address:

B APPLICATION - IMPORTANT

Applications must be accompanied by payment in full. Payment must be by a cheque or bank draft payable to "Xero Share Offer" and crossed "Not Transferable". **Payment must be in New Zealand currency.** Applications must be for a minimum of 1,000 shares (i.e. \$1000) and, thereafter, in multiples of 500 shares (i.e. \$500).

NUMBER OF SHARES APPLIED FOR: CHEQUE OR BANK DRAFT ATTACHED FOR: \$

C SHAREHOLDER NUMBER:

IF YOU CURRENTLY HAVE A COMMON SHAREHOLDER NUMBER (CSN), PLEASE ENTER IT HERE:

D IRD NUMBER

ONLY ONE IRD NUMBER IS REQUIRED IN RESPECT OF JOINT APPLICATIONS

E SIGNATURE(S) OF APPLICANT(S)

I/We hereby acknowledge that I/we have received and read the Offer Document, and apply for the number of fully paid ordinary Shares shown above and agree to accept such Shares (or such lesser number as may be allotted to me/us) on and subject to the terms and conditions set out in the Offer Document and on the terms set out in the Application Instructions:

SIGNATURE APPLICANT: SIGNATURE APPLICANT: SIGNATURE APPLICANT:

DATE: DATE: DATE:

TEAR APPLICATION FORM HERE

FORM CONTINUED ON REVERSE

F SEND APPLICATION FORM AND CHEQUE OR BANK DRAFT TO BY 5.00PM ON 30 MAY 2007 TO:

Xero Share Offer
Link Market Services Limited
PO Box 91976, Auckland 1142
Level 12, 120 Albert Street, Auckland

OR to the Lead Broker or any other Primary Market Participant, in sufficient time for the Application Form to reach Link Market Services by 5.00pm on 30 May 2007.

G CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY: (Complete this section if you are acting on behalf of someone for whom you have Power of Attorney)

I, _____ (Name of Attorney)

Of _____ (Address and Occupation of Attorney)

HEREBY CERTIFY:

1. THAT, by Power of Attorney dated the _____ day of _____ the ('Donor') appointed me his/her/its Attorney on the terms and conditions set out in the Power of Attorney.
2. THAT I have executed the application for Shares printed on this Application Form under the Power of Attorney and pursuant to the powers thereby conferred on me.
3. THAT at the date of this certificate I have not received any notice or information of the revocation of that Power of Attorney by death (or winding up) of the Donor or otherwise.

Signed at _____ this _____ day of _____ 2007

Signature of Attorney _____

H CERTIFICATE OF NON-REVOCATION OF AGENCY: (Complete this section if you are acting as agent for someone)

I, _____ (Name of Agent)

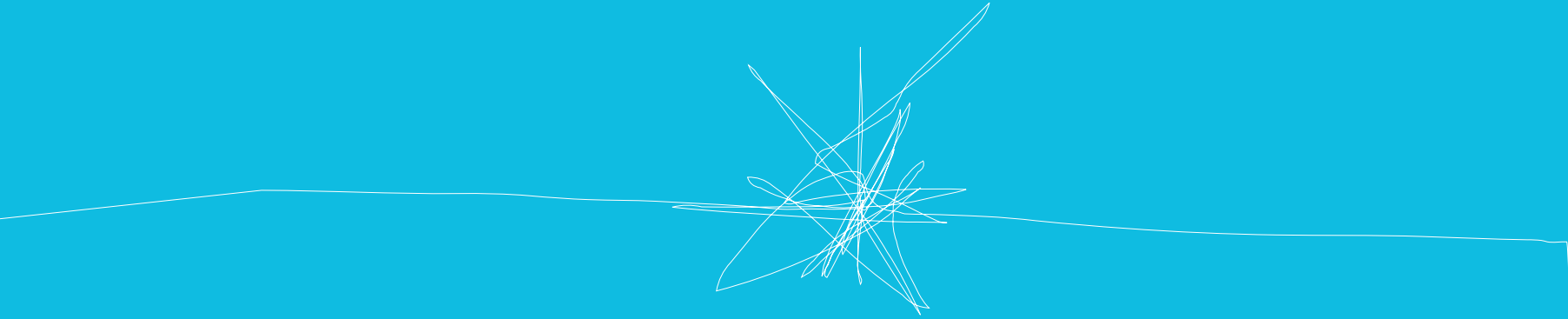
Of _____ (Address and Occupation of Agent)

HEREBY CERTIFY:

1. THAT, by Agreement dated the _____ day of _____ the ('Donor') appointed me his/her/its Agent on the terms and conditions set out in the Agreement.
2. THAT I have executed the application for Shares printed on this Application Form under the Appointment and pursuant to the powers thereby conferred on me.
3. THAT at the date of this certificate I have not received any notice or information of the revocation of that Appointment by death (or winding up) of the Donor or otherwise.

Signed at _____ this _____ day of _____ 2007

Signature of Agent _____



GLOSSARY OF TERMS

\$, NZD OR NZ\$

New Zealand dollar

ALLOTMENT DATE no later than Tuesday, 5 June 2007

APPLICATION an application to subscribe for Shares under the Share Offer

APPLICATION FORM the forms at pages 89 to 92 or circulated with this Offer Document to subscribe for Shares under the Share Offer

APPLICANT a person who submits an Application Form under the Offer

BUSINESS DAY a day on which the NZX is open for trading

CAMERON PARTNERS

Cameron Partners Limited, financial advisor to the Board and Joint Organising Sponsor of the Share Offer

CLOSING DATE 30 May 2007, unless brought forward or extended by Xero

COMPANIES ACT Companies Act 1993

COMPANY Xero Live Limited

CEO Chief Executive Officer, being Rod Drury

CFO Chief Financial Officer, being Hamish Edwards

CHAIRMAN OR INDEPENDENT CHAIRMAN Phil Norman

CSN Common Shareholder Number

DIRECTORS OR BOARD

The board of directors comprising Phil Norman, Graham Shaw, Guy Haddleton, Sam Morgan, Rod Drury and Hamish Edwards

ERNST & YOUNG Ernst & Young Limited

ESOP employee share option plan

EXISTING SHAREHOLDER a holder of shares in Xero prior to the Share Offer

FASTER Fully Automated Settlement and Transfer System, operated by the NZX

FIN FASTER identification number

FIRST NZ CAPITAL First NZ Capital Securities Ltd, Lead Broker and Joint Organising Sponsor of the Share Offer

FOUNDERS OR FOUNDING SHAREHOLDERS Rod Drury and Hamish Edwards

ICT Information, Communications and Technology

INDEPENDENT DIRECTORS the independent directors comprising Phil Norman, Graham Shaw, Guy Haddleton and Sam Morgan

ISSUER Xero Live Limited

ISSUE PRICE \$1.00 per Share

INTUIT Intuit, Inc.

JOINT ORGANISING SPONSOR Cameron Partners Ltd and First NZ Capital Securities Ltd

LEAD BROKER First NZ Capital Securities Ltd

LINK MARKET SERVICES Link Market Services Limited, the Share Registrar

LISTING DATE AND LISTING 5 June 2007, the date Xero is expected to be quoted on the NZSX and trading in Shares to commence

LISTING RULES Listing Rules of the NZX in relation to the NZSX (or any market in substitution for that market) in force from time to time

MYOB MYOB Limited or MYOB accounting software, as the context requires

NZ New Zealand, its states and territories

NZSX New Zealand Stock Market, operated by NZX

NZX New Zealand Exchange Limited

OECD Organisation for Economic Cooperation and Development

OFFER DOCUMENT OR PROSPECTUS the combined investment statement and prospectus dated 11 May 2007

OFFER PRICE \$1.00 per Share

OPENING DATE 14 May 2007 or such other date as Xero determines

OPTIONHOLDERS a holder of an option over Shares in Xero

PRIMARY MARKET PARTICIPANT a sharebroking firm authorised to trade shares on NZX

SAAS software as a service, being a business model adopted by some software companies

SAGE Sage Group plc

SECURITIES ACT Securities Act 1978

SHARE OR SHARES an ordinary share in Xero

SHAREHOLDER a holder of Shares

SHARE OFFER OR OFFER the offer of Shares under this Offer Document

SHARE REGISTRAR Link Market Services Limited

SMES small and medium sized enterprises, typically meaning in this document enterprises with less than 20 employees

UK United Kingdom, its states and territories

USA OR US United States of America

XERO Xero Live Limited or the Xero online accounting software product, as the context requires

DIRECTORY

REGISTERED OFFICE OF XERO

Xero Live Limited
Level 1, Old Bank Chambers
98 Customhouse Quay
Wellington
Phone: (04) 819 4800
Facsimile: (04) 819 4801

DIRECTORS OF XERO

Rodney Kenneth Drury
Hamish Craig Edwards
Philip John Norman
Graham John Shaw
John David Guy Haddleton
Samuel Gareth Morgan
Company Secretary: Linda Cox

**JOINT ORGANISING SPONSOR AND
FINANCIAL ADVISER TO XERO**

Cameron Partners Ltd
Level 12, HP Tower
171 Featherston Street
Wellington
Phone: (04) 499 6650
Facsimile: (04) 499 6651

**JOINT ORGANISING SPONSOR
AND LEAD BROKER**

First NZ Capital Securities Ltd
Level 20, ANZ Centre
23-29 Albert Street
Auckland
Phone: (09) 302 5500
Facsimile: (09) 302 5580

SOLICITOR

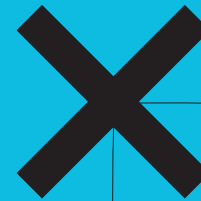
Bell Gully
HP Tower
171 Featherston Street
Wellington
Phone: (04) 473 7777
Facsimile: (04) 473 3845

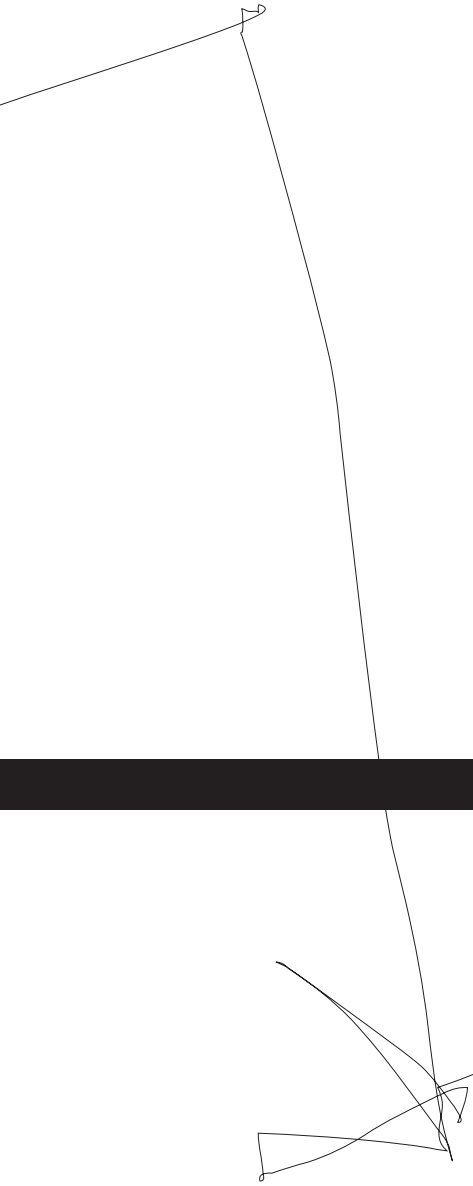
AUDITOR

BDO Spicers
99-105 Customhouse Quay
Wellington
Phone: (04) 472 5850
Facsimile: (04) 473 3582

SHARE REGISTRAR

Link Market Services Limited,
PO Box 91976, Auckland, 1142
Level 12, 120 Albert Street Auckland
Investor enquiries: (09) 375 5998
Facsimile: (09) 375 5990
Email enquiries: lmsenquiries@linkmarket services.com
Website: www.linkmarket services.com





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www.xero.com

