

Hyro Limited ACN: 081 368 274 (ASX: HYO)

ASX Preliminary Final Report – 31 December 2008

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Chairman and Chief Executive's Commentary 2008

Directors

The following persons were directors of Hyro Limited during the whole of the year and up to the date of this report unless otherwise stated:

Robert Clarke	Chairman
Bill Votsaris	Chief Executive Officer
Robert Bladier	Non Executive director
Selwyn Shapiro	Non Executive Director, Appointed 16 May 2008
Mark Forsyth	Appointed 28 August 2008, resigned 11 September 2008
Joe Calavassy	Resigned: 1 February 2008
Victor Aghtan	Resigned: 1 April 2008
Ted Edwards	Retired: 20 May 2008
Neil Docherty	Resigned: 20 May 2008
Stephen Porges	Resigned: 28 August 2008

Bill Votsaris was appointed Chief Executive Officer on 1 February 2008. Prior to that date he was the Chief Operating Officer and an executive director.

Joe Calavassy was Chief Executive Officer and a director from the beginning of the period until his resignation on 1 February 2008.

Commentary

Hyro Limited provided an Update to Shareholders in its announcement to the market of 16 February 2009. Rather than repeat matters described therein, this Commentary focuses on matters relevant to the Interim, Unaudited Financial Statements for the Year Ended 31 December 2008. A copy of our earlier announcement is attached to this commentary.

Financial Results

The attached Profit and Loss Statement reports full year revenue of \$60.5m, representing a reduction of 1% over 2007. This income level has been achieved despite the challenges encountered during 2008 and we thank the management and staff for this result during an unusual and difficult year.

Despite the successful implementation by management of cost cutting and performance improvement initiatives, the company recorded an unaudited EBITDA loss for the year of \$11.8m (2007 \$13.0m, an improvement of 9%). Significant within this unaudited EBITDA loss are the costs incurred in the first half of the year rectifying the poor operating position carried forward from 2007 and also significant excess costs being carried in the business at the start of the year. The second half, while showing a significant improvement, was adversely impacted by volatility in revenues resulting from the collapse of the Company's financier, Lehman Brothers and the temporary flow on effect to Hyro.

Finally, the net unaudited results for the year include significant non-cash items for the impairment of intangible assets. In light of the operating result for the year, and the current economic environment, the company has taken a charge of \$23.4m for the year with respect to these intangible assets. The net unaudited results for the year are an NPAT loss of \$41.4m for the year, a change of 66% over 2007.

Post Balance Dates Events

The results for 2008 do not reflect the finalisation of the agreed settlement of the Convertible Note and accrued interest with the liquidators of Lehman Brothers Commercial Credit Asia, negotiated during 2008, but not scheduled to be finalised until Q1 2009. This transaction is expected to give rise to a significant, positive, non-cash item in 2009.

Conclusion

The greatest importance to shareholders now must be the company's position and operating performance going forward. Management and the Board have taken steps to refocus the business on a commercial core and to drive the business to operational profitability. The attached Update to Shareholders, (previous announcement) describes significant reductions in ongoing costs, the material reductions in debt and interest expense, and other actions taken by management to achieve this objective. We believe that the company is now suitably positioned to deliver a positive commercial result.

Rob Clarke
Chairman
27 February 2008

Bill Votsaris
Chief Executive Officer
27 February 2008

Hyro Limited
Year ended 31 December 2008

Results for Announcement to the Market

\$000's

Revenue from ordinary activities	Down	1%	to	60,712
Loss from ordinary activities before individually significant items	Down	51%	to	(11,009)
Loss from ordinary activities after tax	Up	66%	to	(41,414)
Net Loss for the period attributable to members	Up	66%	to	(41,414)

Dividends / Distributions

	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil
Record date for determining entitlements to the dividend		Not Applicable

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Hyro Limited
Year ended 31 December 2008

Results for Announcement to the Market

Explanation of Revenue and Net Loss

	2008 \$'000	2007 \$'000
Operating Revenue	60,712	61,170
Operating Profit / (Loss) before individually significant items	(11,009)	(22,629)
Individually significant items	(30,405)	(2,300)
Net Profit / (Loss)	(41,414)	(24,929)
Profit / (Loss) per share (Cents)	(7.74)	(5.17)

Individually Significant Items

	2008 \$'000	2007 \$'000
Impairment of Goodwill & Intangible Assets	(23,424)	(2,300)
Restructuring Costs	(2,797)	-
Write off of Assets	(2,039)	-
Write off of Investments in Closed Operations	(1,635)	-
Other	(510)	-
	<u>(30,405)</u>	<u>(2,300)</u>

Explanation of Dividends

No dividends have been paid or declared in the year

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Hyro Limited
Preliminary Consolidated Income Statement
For the year ended 31 December 2008

	2008	2007*
	\$'000	\$'000
Revenue	60,482	61,591
Cost of sales	(46,019)	(44,440)
Employee benefit expense	(10,705)	(15,557)
Depreciation	(1,894)	(798)
Amortisation of Intangible Assets	(2,521)	(8,426)
Impairment of Goodwill & Intangible Assets	(23,424)	(2,300)
Financing expense	(2,094)	(2,132)
Other expenses from ordinary activities	(15,341)	(12,045)
	<hr/>	<hr/>
(Loss) before income tax	(41,516)	(24,107)
Income tax (expense) benefit	100	(935)
	<hr/>	<hr/>
Net (Loss)	(41,416)	(25,042)
Net Profit / (Loss) attributable to minority interests	2	113
	<hr/>	<hr/>
Net (loss) attributable to members of Hyro Limited	(41,414)	(24,929)

* Note: expenses for 2007 include expenses for the acquired Synergy business from May 2007 only.

	Cents per Share	Cents per Share
Basic profit (loss) per share	(7.74)	(5.17)
Diluted profit (loss) per share	(7.74)	(5.17)

Hyro Limited
Preliminary Consolidated Balance Sheet
As at 31 December 2008

	2008 \$'000	2007 \$'000
Current Assets		
Cash and cash equivalents	2,599	3,176
Inventories	7	291
Trade and other receivables	7,303	21,181
Other	108	1,299
	10,017	25,947
Non-Current Assets		
Investments	40	40
Property, plant and equipment	5,335	4,324
Intangible assets and goodwill	14,539	41,794
	19,914	46,158
Total Assets	29,931	72,105
Current Liabilities		
Trade and other payables	11,079	19,772
Interest-bearing loans and borrowings	19,915	3,702
Income & Other taxes payable	6,604	160
Provisions	660	311
	38,258	23,945
Non-Current Liabilities		
Provisions	2,341	268
Deferred Income & Other Tax Liabilities	8,726	7,118
Interest-bearing loans and borrowings	-	18,789
	11,067	26,175
Total Liabilities	49,325	50,120
Net Assets (Liabilities)	(19,394)	21,985
Equity		
Parent entity interest		
Contributed equity	105,599	105,329
Accumulated losses	(126,395)	(84,783)
Reserves	1,400	1,439
	(19,396)	21,985
Minority Interests	2	-
Total Equity	(19,394)	21,985

Hyro Limited
Preliminary Consolidated Cash Flow Statement
For the year ended 31 December 2008

	Consolidated	
	Inflows/(Outflows)	
	2008	2007
	\$'000	\$'000
Cash Flows from Operations		
Receipts from customers	80,592	55,093
Payments to suppliers and employees	(79,483)	(62,020)
Interest received	199	421
Borrowing costs	(473)	(1,431)
Income Tax Paid	(2)	-
	833	(7,937)
Cash Flows from Investing activities		
Payments for plant and equipment	(2,433)	(1,877)
Payments for Software	-	(194)
Payments for purchase of controlled entities net of cash acquired	-	(5,160)
Payments for Intangibles	-	-
Proceeds of sale of equipment	1,116	-
	(1,317)	(7,231)
Cash Flows from Financing Activities		
Repayment of borrowings	(407)	-
Payment of deferred consideration	-	-
Repayment of deferred liabilities	-	-
Net proceeds from issue of shares	11	147
Payment of unsecured creditor	-	(1,326)
Net proceeds from convertible note issued	-	18,933
	(396)	17,745
Net increase (decrease) in cash	(880)	2,586
Cash at the beginning of the year	3,176	590
Effect of Foreign Exchange adjustments	-	-
Cash at end of year	2,588	3,176

Hyro Limited
Preliminary Statement of Changes in Equity
For the year ended 31 December 2008

	Issued Capital \$'000	Accumulated Losses \$'000	Other Reserves \$'000	Total \$'000	Minority Interest \$'000	Total Equity \$'000
At 31 December 2006	72,280	(59,854)	706	13,132	164	13,296
Issue of Share capital	31,703	-	-	31,703	-	31,703
Loss for the period	-	(24,929)	-	(24,929)	(113)	(25,042)
Minority Interest –Pre Acquisition	-	-	-	-	(51)	(51)
Convertible notes	1,346	-	-	1,346	-	1,346
Share-based payment expense	-	-	733	733	-	733
Deferred Acquisition Cost	-	-	-	-	-	-
At 31 December 2007	105,329	(84,783)	1,439	21,985	-	21,985
Issue of Share capital	270	-	-	270	-	270
Profit (loss) for the period	-	(41,416)	-	(41,416)	2	(41,414)
Share-based payment expense	-	-	-	-	-	-
Other	-	-	(236)	-	-	(236)
At 31 December 2008	105,599	(126,199)	1,204	(19,396)	2	(19,394)

Hyro Limited
Notes to the Preliminary Consolidated Financial Statements
For the year ended 31 December 2008

Reconciliation of income tax expense

Deferred Tax Expense	2008 \$'000	2007 \$'000
Origination and reversal of temporary differences	(684)	7,654
Recognition of previously unrecognised tax losses	-	1,028
Increase in tax losses for current year and not recognised	(191)	(6,377)
Deferred tax liability	775	(1,370)
	<u>(100)</u>	<u>935</u>

NTA Backing

	2008	2007
Net tangible asset backing per ordinary share (cents)	N/A*	N/A*

* N/A as NTA is negative in 2007 & 2008

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Segment Note

Business segment

The consolidated entity operates in one business segment, being the provision of integrated, technology-based, professional services and solutions.

Geographical segments

Although the entity's divisions are managed on a global basis they operate in two main geographical areas:

Australia, the base country of the parent company, and International: comprising operations in Thailand. Operations carried on directly by the company in New Zealand, China, Hong Kong and New Zealand ceased during the year.

	<i>Australia</i>		<i>International</i>		<i>Inter Segment Eliminations</i>		<i>Consolidated</i>	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Sale to external customers	51,019	55,268	10,703	5,902	(1,240)	-	60,482	61,170
Inter-segment sales	(797)	-	(443)	-	1,240	-	-	-
Total sales revenue	50,222	55,688	10,260	5,902	-	-	60,482	61,170
Other revenue	223	420	7	1	-	-	230	421
Total revenue	50,445	55,688	10,267	5,903	-	-	60,712	61,591
Segment result	(41,146)	(23,057)	(267)	(1,872)	-	-	(41,414)	(24,929)
Segment assets	25,669	68,590	4,261	3,515	-	-	29,930	72,105
Capital expenditure	2,346	3,021	87	368	-	-	2,433	3,389
Segment liabilities	40,649	41,348	8,676	8,772	-	-	49,325	50,120
Depreciation and amortisation expense	1,667	9,151	227	73	-	-	1,894	3,389
Impairment of Goodwill & Intangible Assets	23,424	2,105	-	195	-	-	23,424	2,300

Hyro Limited
Notes to the Preliminary Consolidated Financial Statements
For the year ended 31 December 2008
Supplementary Appendix 4E Information

Details of entities over which control has been gained or lost Nil

Other significant information

Earnings per share

	2008	2007
Basic earnings/(loss) per share (cents)	(7.74)	(5.17)

Returns to shareholders Not applicable

Significant features of operating performance As disclosed in Commentary

Results of segments Refer to segment results above.

Trends in Performance

	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000
Revenue from ordinary activities	60,712	61,170	21,929	11,008	6,628
Net Profit / (loss) after significant items	(41,414)	(24,929)	(593)	(11,271)	(3,135)
Sales increase	(1%)	181%	99%	66%	35%
Loss increase (decrease)	66%	4,103%	(95%)	259%	(50)%

Basis of Preparation

The preliminary results have been prepared using AASB 1018 on a going concern basis.

Audit

The accounts are subject to audit which is ongoing.

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Events Subsequent to Balance Date

Taxation

In February 2009 the company came to an agreement with the Australian Taxation Office regarding the repayment of the company's outstanding debt over a period of three years or longer.

Settlement of Lehman Brothers Transaction

The results for 2008 do not reflect the finalisation of the agreed settlement of the Convertible Note and accrued interest with the liquidators of Lehman Brothers Commercial Credit Asia, negotiated during 2008, but not scheduled to be finalised until Q1 2009 due to documentation delays originating with the Lehman Brothers Receiver. This transaction is expected to give rise to a significant, positive, non-cash item in 2009 in excess of \$20,000,000 in the balance sheet.

Closures of wholly owned group companies

The following wholly owned group companies have ceased trading. The current status and resultant group contingent liabilities are as follows:

\$000's	New Zealand	China	Hong Kong
Entity	Hyro New Zealand Limited (in receivership)	Beijing Getronics Information Technology Company Limited	Getronics (Hong Kong) Limited
% Owned (before closure)	100%	100%	100%
Status	Receivership	Ceased trading	Ceased trading
Write down of assets through the income statement	\$336	\$520	\$780
Contingent liabilities:			
Professional fees	\$15	\$80	\$50
Rental guarantees	\$833	-	-
Other	\$5	\$5	\$5

New Zealand customers are now being serviced out of Australia. In Hong Kong and Singapore, the company has maintained a commercial presence.

Continuity

As at 31 December 2008 the company balance sheet shows negative net assets of \$19.4m. Significant contributors to the negative balance are the ATO debt of \$9m and the Lehman Brothers convertible note. The company has reached an agreement with the ATO regarding the repayment of tax owing over a period of three or more years and as previously announced has a binding agreement with the Lehman Brothers receiver regarding release in full of the convertible note and related fixed and floating charge. It is anticipated that the settlement of the Lehman Brothers Transaction in Q1 2009 will give rise to a significant, positive non-cash item in excess of \$20,000,000 in Hyro's 2009 balance sheet, which will off-set this amount.

The directors believe that in light of the significant reduction of debt through the settlement of the Lehman Brothers transaction and negotiation of an agreement with the ATO, the resultant reductions in interest expense, the significant operating expense reductions achieved in 2008, the removal and restructuring of non-performing businesses and the ongoing business plans now in place, the company will most likely generate positive cash flow and continue as a going concern.

Ends



16th February 2009.

Update and Restructure of Operations

Hyro Limited

ASX : HYO

Hyro Limited (ASX : HYO) provides this announcement as a trading update and to report progress of business restructuring activities.

Restructure of Operations

Over the last year, the company has implemented a number of significant initiatives in response to the poor results delivered in 2007.

These initiatives comprised two principal parts: Cost Reduction and Performance Improvements, and Operational Restructure.

In terms of Cost Reduction and Performance Improvement, Hyro has achieved significant reductions in recurring operating costs, augmented by improvements in operating performance. Specifically, the company has:

- Reduced recurring and non-recurring operating costs for the year by an estimated total in excess of \$10 million per annum when compared to 2007. Key reductions have included:
 - Personnel, salary and wages costs
 - Rent, accommodation and associated costs
 - Travel and entertainment costs
 - Interest paid.
- Increased the operating performance of the company through improvements in key revenue generating areas including:
 - Improved average utilisation per employee
 - Improved contract engagement and invoicing
 - Reduced rates of re-work and error mitigation
 - Increased levels of recurring (managed services) and annuity business

The Operational Restructure initiative also included a review of marginal and non-strategic business activities. As a result of this review, the following changes have been made to various business units:

- The Hyro Hong Kong business unit has been merged with the professional services operations of Business Intelligence technology vendor, Avartis Pte Ltd, to create a new,



jointly held entity called Kallidos with presences in Hong Kong and Singapore. Hyro will retain 30% of the merged entity. The Hyro Hong Kong legal entity has ceased trading.

- The loss-making Hyro business in China (Shanghai) has ceased trading.
- Operations in New Zealand have ceased and a receiver has been appointed. Hyro will continue to service clients in New Zealand from other offices and will, if required, transfer personnel into that market for specific client requirements.

The profitable Hyro Thailand business is positioned as the primary centre for all Hyro operations in Asia, delivering Hyro's extended offering to clients in Thailand and across the region. To deliver these services, Hyro Thailand will draw on Australian and local capabilities, priced at levels comparable to those charged in the company's more mature markets.

Hyro has also initiated an ongoing change program across the business, focussed on continuous improvement, further cost reductions and improvements in profitability, under the banner of "Driving Change." The Driving Change program, and related incentives for management and staff to achieve the objectives of this program, requires the delivery of a material operating profit for the 2009 year.

Trading Update

Trading in 2008 was affected by unusual and unexpected external factors which had a material, adverse influence on the business. Previous announcements have detailed the challenges faced by Hyro at the start of the year following the poor results for 2007, and management's response to those challenges. The expense and effort of responding to and meeting those challenges resulted in a reported operating loss in the first half of 2008.

The uncertainty generated by the collapse of Lehman Brothers Inc. and the resulting speculation that the collapse would have severe consequences for the company, impacted on customer and partner confidence during the second half of 2008. As a result, Hyro experienced lower than expected levels of revenue for several months as customers either scaled back, or deferred activities. The announcement that an arrangement had been reached with the Receiver of the relevant Lehman Brothers subsidiary, Lehman Brothers Commercial Corporation Asia ("LBCCA"), served to resolve much of this uncertainty and trading returned to stronger levels in the latter part of the half. Despite this late improvement, the company will report an operating loss for the full year. The company will not be providing revenue guidance or forecasts for 2009.

The Board considers that in light of the 2008 group results and in light of current economic conditions, the carrying values of intangible assets have been impaired. As a result, a significant impairment charge, in the process of being unquantified, will be recorded for 2008.

An operating highlight for 2008 has been the continued strong performance of the Hyro Thailand business. This business unit continued its profit growth and delivered an operating profit level in excess of 25% of revenue for the 2008 year, an improvement on the 2007 result.

Finally, the company has reached a commercial arrangement with the Australian Taxation Office with respect to outstanding tax liabilities.



Outlook

Despite widespread cutbacks in advertising and marketing expenditure,, a number of indicators suggest that many of these cutbacks will result in a shift of remaining budgets to, and increased reliance on, digital channels for online marketing, electronic commerce and customer service. Hyro's Digital Services offering is specifically targeted to these requirements of large corporations and government agencies. Over the last few months, Hyro has enjoyed strong levels of enquiry from both existing and new customers and has been successful in a number of bids and proposals which supports what the indicators are suggesting.

The Board and Management of Hyro are confident that a combination of the significant changes made to the business in 2008 and the expected market conditions for digital services in 2009 provide a platform for the delivery of improved operating results in 2009.

Issue of Shares re Lehman Brothers Convertible Note

Hyro advises that 80,000,000 fully paid ordinary shares in Hyro Limited will be issued today to the Receiver of LBCCA consistent with previous announcements to the market.

A second allocation of 27,000,000 fully paid ordinary shares in Hyro Limited is to be issued subject to shareholder approval at the Annual General Meeting.

For further information call:

Bill Votsaris

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About Hyro

Hyro Limited (ASX:HYO) is a Digital Services company which provides services to support the online marketing, electronic commerce and other digital channel based activities of major corporations and government agencies throughout Australia, New Zealand and Asia.

Hyro is focused purely on Digital Services across Internet, mobile, and interactive TV channels; from the user's screen to the back-end systems. Hyro's end-to-end Digital Services offering includes award winning creative, online advertising campaigns, mobile services such as mobile TV and m-sites, user experience and user management, sophisticated e-commerce and e-government implementations, technology development, integration projects and ongoing managed services.

Hyro's enterprise-wide approach provides all necessary services for its clients to attract and interact with customers using digital channels, and to integrate this engagement with existing IT infrastructure to deliver business outcomes

Hyro is an IBM Premier Business Partner. A Microsoft Gold Certified Partner and an Adobe Premier Partner.

For more information please go to www.hyro.com (main site) or www.hyrolimited.com (investor site).