



Diligent's Global Vision:

**“In the near future—every significant board in the world
will be using online digital board books”**

—Alessandro Sodi, CEO & President, Diligent Board Member Services, Inc.

DILIGENT BOARD MEMBER SERVICES, INC.

ANNUAL REPORT

For The Period Ended 31 December 2007

CONTENTS:

Chairman's & CEO's Report.....	4-5
Diligent Overview	6-9
Director Profiles	10-11
Financial Statements	
• Balance Sheet	13
• Statement of Operations	14
• Statement of Stockholders' Equity	15
• Statement of Cash Flows.....	16
• Notes to the Financial Statements.....	17-26
• Audit Report	27
• Comparison To Prospective Financial Information	28-31
Corporate Governance.....	32-36
Statutory Information	37-43
Directory	44



Edward Charlton
*Chairman,
Diligent Board Member
Services, Inc.*



Alessandro Sodi
*Chief Executive Officer
and President,
Diligent Board Member
Services, Inc.*

Chairman's and CEO's Report

We are pleased to present this inaugural annual report for the period ending 31 December 2007.

2007 was a momentous year for Diligent Board Member Services, Inc. (Diligent). Whilst there have been many milestones in the six-year history of Diligent and its predecessor companies as the Boardbooks technology has been proven and licensed to many blue chip corporations, the Initial Public Offering (IPO) and listing of Diligent shares stands out as the most significant.

The successful raising of \$NZ 24 million through the IPO in December 2007 has positioned the company for its next critical phase—the international expansion of Diligent and its sales force to drive increasing market share and revenue. This is key to Diligent achieving its stated goal of becoming the leading global provider of internet-based Software-As-A-Service (SaaS) corporate governance solutions.

While the IPO process absorbed considerable management time during the three months to the actual listing on 12 December, the focus of both management and the board remains firmly on achieving the goals outlined in the IPO offer document.

Diligent's success to date, and its future strategy, is based on making life simpler for directors and administrators who run major companies and other organisations around the world. These organisations have stringent corporate governance requirements and demand exceptional product quality and service. Their directors and administrators must manage large volumes of information securely and under pressure of time. Diligent assists them by providing and maintaining a software platform that meets those stringent requirements and is easy to use—it "looks like a book and works like a book"—keeping the comfort of a traditional book while utilising the power of web-based technology.

The sales recruitment process is in full swing and Diligent currently has 8 full-time equivalent sales executives and an additional 24 are currently undergoing training. Diligent is on track to have a fully trained sales force of: USA 19, Europe 7, Canada 4, New Zealand 2.

The license pipeline continues to grow, and with the new year now well under way every effort is being made to secure license agreements as outlined in the offer document.

The appointment of Brian Henry to the position of Global Sales Director has enabled him to concentrate his skills and ability where they will have most benefit to the shareholders. Brian stepped aside as Chief Executive Officer in mid December 2007. He was succeeded by Alex Sodi, who joined Diligent's predecessor company in 1998, has been President of Diligent and its predecessor companies since 2002 and has led the development of Diligent Boardbooks since 2001.

In terms of financial performance, the first benchmark for Diligent was the three months to 31 December 2007, for which prospective financial forecasts were outlined in the offer document.

Net sales for that period were \$US 515,103, marginally higher than the projected figure of \$US 503,178. For the full year to 31 December, net sales were \$US 1,719,510, 2.5 percent higher than the projected figure of \$US 1,678,016. The 2007 figure incorporates the unaudited results for Diligent Board Member Services, LLC for the nine months ending 30 September 2007 and the audited results for Diligent for the three months ending December 2007.

For the three months ending December 2007, Diligent reported a net loss of \$US \$3,670,056 against a projected loss of \$US \$4,973,855. The major contributing factor in this improvement was a lower non-cash expense (\$US \$1,217,781) from that projected in the offer document. This was due to the decision to delay the vesting of stock to US employees until after 31 December 2007. This is a timing difference only, and that expense will now be reflected in the 2008 result.

In all, 2007 was a tremendous year of growth for Diligent, with license agreements up by 117% (from 34 to 74) and annualized license fees up by 83% (from \$US \$1,125,410 to \$US \$2,060,177).

Overall, we remain optimistic as market awareness is at an all-time high, however we have yet to see the full impact of recent market turbulence. We believe contract-signing periods will also be shortening as corporations have become accustomed to implementing web-based technology and as SaaS becomes an industry standard.

We have aggressive global marketing campaigns in place right now—and we expect significant worldwide growth in 2008.

Our sales pipeline is currently stronger than it has ever been. However, we note that delays in converting the pipeline, due to a shortfall in fully trained sales staff, may cause some revenue to shift within the year. This shortfall has been addressed with the total recruitment of 32 sales staff.

We remind investors that our offer document performance is warranted. The founding shareholder of Diligent, Diligent Board Member Services, LLC has agreed to a graduated share cancellation scheme in respect of up to 20 per cent of the total shares held by Diligent Board Member Services, LLC if annualized license fee projections contained in the offer document are not met. Such a warranty clearly aligns the interests of the founder, whose shareholders remain key executives in Diligent, to those of Diligent's shareholders.

Diligent is 100 percent focused on driving shareholder value—our core objective is to create and increase wealth for our shareholders.

Yours sincerely,



Rick Bettle
*Acting Chairman
Diligent Board Member Services, Inc.*



Alessandro Sodi
*Chief Executive Officer
Diligent Board Member Services, Inc.*

Diligent Overview

PERFORMANCE HIGHLIGHTS

We are pleased to report that 2007 was a tremendous year of growth for Diligent, with net sales up by 55%, annualized license fees up by 83%, and license agreements up by 117%.

Net Sales					Annual Growth: 55%
	Per Quarter Results (millions \$US)				\$1.736
\$1.122					
	\$0.370	\$0.419	\$0.432	\$0.515	
Full Year 2006	1st Quarter 2007	2nd Quarter 2007	3rd Quarter 2007	4th Quarter 2007	Full Year 2007

The 2006 Net Sales is audited results for DBMS LLC. The 2007 Net Sales is unaudited results for DBMS LLC for nine months ending September 30, 2007 and audited results for DBMS Inc for the 3 months ending December 31, 2007.

Cumulative Annualized License Fees					Annual Growth: 83%
	Cumulative Quarter Results (millions \$US)				\$2.060
\$1.125	\$1.187	\$1.439	\$1.655	\$2.060	\$2.060
Full Year 2006	1st Quarter 2007	2nd Quarter 2007	3rd Quarter 2007	4th Quarter 2007	Full Year 2007

Cumulative License Sales					Annual Growth: 117%
	Cumulative Quarter Results				74
34	37	45	57	74	74
Full Year 2006	1st Quarter 2007	2nd Quarter 2007	3rd Quarter 2007	4th Quarter 2007	Full Year 2007

Because license values constantly fluctuate, we consider License Sales to be a "growth indicator"—as opposed to the greater importance we place on "Annualized License Fees" and "Net Sales," which we consider to be "key growth benchmarks."



DILIGENT
BOARD MEMBER
SERVICES, INC.

The Old Way

Previously...compiling, managing, distributing and reviewing board meeting materials was a dreaded task for corporate counsels and directors alike. Production was **time-consuming, error-prone and overwhelming.**



The old way—manually printing & distributing stacks of materials.

The Diligent Way

The introduction of the Diligent Boardbooks **online board portal has streamlined and simplified** the entire process of compiling, updating, distributing, reviewing and archiving board materials.



The new way—easy, instant online access to board books—that are always up-to-date.



The new way—access to board papers anywhere, anytime—with absolute security.

Looks Like a Book Works Like A Book™

Layout: Works like a fully paginated hard copy board book with tabs and title pages

Navigation: Allows directors to easily go to specific pages instead of searching for files

Toolbar: Provides quick links to other site locations, such as the resource center, archives, calendar, and contacts

Book Tabs: Click on any tab to see the actual documents conveniently organized within the tab

Easy and Intuitive

Diligent Boardbooks is designed to look like a book and work like a book—making it easy for directors to quickly embrace its powerful features.

“The portal from Diligent may be the easiest to use. The Diligent layout looks like a paper book...and directors ‘flip’ pages with the click of a mouse.”

—**Wall Street Journal**,
October 2006

Instant Online Access

Diligent Boardbooks allows directors to instantly and securely review their board materials online—anytime, from any computer, anywhere in the world.

“The use of corporate board portals has the potential to enable better management and distribution of information within organizations.”

—**National Association of Corporate Directors**,
September 2007

Many of the largest corporations in the world are already successfully using Diligent Boardbooks™

Diligent Boardbooks is already empowering the lives of thousands of directors and corporate governance executives around the world.

Diligent currently serves:

- Over 2,300 registered users
- 380+ boards, sub-boards, meeting groups and committees



“It’s changed my life as a director...to have this capability to not have to drag four feet of material to a board meeting and review it.”

It’s made my life easier and hopefully makes me a better director. This cutting-edge technology enables board members to more efficiently and effectively fulfill their responsibilities.”

—*Sandy Eisenstat, Chairman
AIG SunAmerica Funds*



“I think there would be a revolt if we attempted to take this valuable tool away from our directors.”

—*Darryl Forsyth, Chairman
NBT Bancorp*

Director Profiles



Edward Charlton
Independent Director and Chairman, United Kingdom

After qualifying as a solicitor of the Supreme Court in the United Kingdom, Edward Charlton turned to international banking where he has held a wide range of executive positions in the banking industry for over 30 years. Since 2005 he has been a Director of HSBC Private Bank (UK) Ltd. He has held a number of Directorships over the years and now holds Non-Executive Directorships with The Absolute Fund Ltd, The Absolute Focus Fund Ltd, Brandco Management Ltd, Line 7 (Europe) Ltd and Ocean Sport Management Ltd.



Alessandro Sodi
Executive Director, Chief Executive Officer and President, USA

Alex Sodi served as Executive Vice President of Manhattan Creative Partners, LLC (MCP) from 1998 until 2003. In 2003, MCP was renamed Diligent Board Member Services, LLC at which time he was appointed President. This enabled him to focus entirely on Diligent Boardbooks. From 2001 to 2003 he led the development of Diligent Boardbooks and was responsible for building and maintaining the pivotal relationship with the board of directors of AIG SunAmerica Funds—Diligent's foundation client.



Rick Bettle
Independent Director, New Zealand

Rick Bettle is a professional director and an Accredited Fellow and Immediate Past President of the New Zealand Institute of Directors. He is also a Graduate Fellow of the Australian Institute of Company Directors. He is currently Chairman of the Civil Aviation Authority of New Zealand, Dominion Finance Ltd and ATTO Ltd, and a Director of Southport Ltd, Goodman NZ, Revera Ltd and Synergy International Ltd. He previously Chaired numerous organizations, including the New Zealand Totalisator Agency Board for over eight years.



Peter Huljich
Independent Director, New Zealand

Peter Huljich is Managing Director and Chief Investment Officer of Huljich Wealth Management. He has over ten years of investment experience since joining the privately held Huljich Group which was created from the sale of Best Corporation to Danone Group in 1995. He also has an extensive background in the securities industry, predominantly focused on the procurement of investments within Australia, Europe and the Americas. His full understanding of financial markets provides a valuable contribution to the Diligent Board.



Brian Henry
Executive Director & Global Sales Director, USA & New Zealand

Brian Henry and DBMS Corporate Secretary Kiri Borg co-founded in 1994 Manhattan Creative Partners, LLC (MCP), a firm specializing in complex database programming and hosting, which developed the first digital Diligent Boardbook for AIG Sunamerica. MCP became one of the world's most highly capable software development firms, building complex database-driven software for America's leading companies. In 2003, MCP was renamed Diligent Board Member Services, LLC to reflect the firm's shift of focus to corporate governance service delivery.



Sharon Daniels
Executive Director and CMO, USA

Sharon Daniels is a founder of Diligent Board Member Services, LLC and has been responsible for creating and maintaining the Diligent global brand and its market position. She has had over 20 years experience in branding and strategic business development. She has also had extensive international experience with technology and financial service companies and has consulted to global giants such as AIG, ConAgra and Flextronics. Prior to joining Diligent, Sharon Daniels was a Vice President at the PaperDirect, Inc.



Mark Russell
Independent Director, New Zealand

Mark Russell is a senior commercial partner of the New Zealand law firm Buddle Findlay, acting for a wide range of public and private companies and has extensive experience in corporate finance and structuring, and banking and insolvency. He acts for a number of companies listed on NZX and NZAX, with particular emphasis on Listing Rules, compliance advice, initial listing and IPOs. He gives banking and securities advice to New Zealand and overseas banks and overseas law firms, and he also provides advice to trustee companies.



Guy Saxton
Independent Director, United Kingdom

Guy Saxton is CEO of First London Securities, an FSA-regulated investment firm based in the USA and the UK. He currently holds Non-Executive Directorships with Countermine Plc, Eco-City Plc, Kleenair Plc, Kormet Limited and Pristec Plc. He was previously CEO at Angelbourse Private Equity, part of the Concensus Group of companies. Guy started his career with AXA in 1988 and joined Fidelity Brokerage Services in 1994 where he was International Sales Director and then became UK Executive Director of DFD Capital (Guernsey) in 1998.



Kevin Lawler
Director and Chief Financial Officer: New Zealand

Kevin Lawler is the New Zealand-based Chief Financial Officer of Diligent Inc. He has over 25 years of experience operating as a Senior Finance Executive. Prior to this, he was with General Cable NZ, a subsidiary of the US-based company. He has extensive experience with international reporting, managing global cash and maintaining key business relationships within multiple time zones. He was also a key developer of strategies and was responsible for leading implementation teams for the purchase of New Zealand and offshore businesses.



Financial Statements

CONSOLIDATED BALANCE SHEET as at 31 December 2007

	Notes	31-Dec-07 US GAAP \$US
ASSETS		
Current assets:		
Cash and cash equivalents		\$ 13,675,080
Term deposit	3	76,780
Accounts receivable	4	266,976
Prepaid expenses and other current assets		87,352
Total current assets		14,106,188
Fixed assets, net	5	367,860
Intangible assets, net	6	136,640
Other assets:		
Note receivable	9	6,715,232
Security deposits		43,741
Total other assets		6,758,973
Total assets		\$ 21,369,661
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of obligations under capital leases	7	105,355
Accounts payable		577,025
Customer deposits	8	226,678
Accrued expenses		107,107
Total current liabilities		1,016,165
Non-current liabilities:		
Obligations under capital leases, less current portion	7	165,125
Total non-current liabilities		165,125
Total liabilities		1,181,290
Stockholders' equity:		
Preferred stock, \$.001 par value 50,000,000 shares authorized, none issued		-
Common stock, \$.001 par value 200,000,000 shares authorized, 102,071,000 issued	10	102,071
Additional paid-in capital	10	23,756,356
Accumulated deficit		(3,670,056)
Total stockholders' equity		20,188,371
Total liabilities and stockholder's equity		\$ 21,369,661
Net tangible assets per share		0.20

Signed for and on behalf of the Board as at 28 March 2008.



Rick Bettle, Director



Mark Russell, Director

DILIGENT
BOARD MEMBER
SERVICES, INC.

The accompanying notes form part of the financial statements.

STATEMENT OF OPERATIONS
For The Period Ended 31 December 2007

For the period	Note	3 mths to 31-Dec-07 US GAAP \$US
Sales	\$	515,103
Cost of sales		324,029
Gross profit		191,074
Operating expenses:		
Selling and marketing expenses		987,043
General and administrative expenses		706,928
Research and development expense		334,039
Share-based compensation expense		1,782,219
Interest expense		47,862
Depreciation and amortization		25,411
Total operating expenses		3,883,502
Operating profit (loss)		(3,692,428)
Other income (expenses):		
Interest income		87,821
Foreign exchange loss		(65,449)
		22,372
Loss before provision for income taxes		(3,670,056)
Provision for income taxes		-
Net profit (loss) after tax	\$	(3,670,056)
Earnings per share	11	(0.04)
Diluted earnings per share	11	(0.04)

A Statement of Comprehensive Income has not been prepared. Management consider the comprehensive loss to be consistent with the net loss reported in the consolidated statement of operations of \$3,670,056.

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
For The Period Ended 31 December 2007

	Note	31-Dec-07 US GAAP \$US
Opening Balance		-
Initial capital contribution	\$	68,485
Initial public offering		18,391,200
Capital raising costs		(2,020,020)
Conversion of debt to equity		5,636,543
Share-based compensation		1,782,219
Net loss		(3,670,056)
Balance, 31 December 2007	10	\$ 20,188,371

The accompanying notes form part of the financial statements.

For the period	Notes	3 mths to 31-Dec-07 US GAAP \$US
Cash flows from operating activities:		
Net profit (loss)		\$ (3,670,056)
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization		25,411
Share-based compensation		1,782,219
Non cash interest expense		37,555
Non cash interest (income)		(25,219)
Changes in assets and liabilities:		
Accounts receivable		56,318
Prepaid expenses and other current assets		143,482
Security deposits		8,878
Accounts payable		577,025
Customer deposits		(155,766)
Accrued expense		107,107
Net cash used in operating activities		(1,113,046)
Cash flows from investing activities:		
Term deposit		(76,780)
Purchase of fixed assets		(200,337)
Loans to stockholder		(3,699,290)
Net cash used in investing activities		(3,976,407)
Cash flows from financing activities:		
Debt converted to shares		2,420,000
Capital raised in initial public offering		18,391,200
Listing costs		(2,020,020)
Repayments of obligations under capital leases		(26,647)
Net cash provided by financing activities		18,764,533
Net increase in cash and cash equivalents		13,675,080
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	15	\$ 13,675,080

The accompanying notes form part of the financial statements.

1) Corporate Information

Diligent Board Member Services, Inc. ("Diligent") was incorporated in the State of Delaware on 27 September 2007. Diligent is a profit oriented company that provides worldwide online management of corporate governance documents ("Boardbooks") to corporate clients. Each client of Diligent enters into a service agreement whereby Diligent agrees to install and maintain the Boardbooks service.

Diligent is listed on the New Zealand Stock Exchange ("NZSX"). Diligent's headquarters are 310 Fifth Avenue, 7th Floor, New York with the New Zealand place of business being 69 Cambridge Terrace, Level 4, Christchurch. Diligent details are available from the New Zealand Companies Office website.

As at 31 December 2007 Diligent Board Member Services LLC ("LLC") was the nominal holder of a majority of the issued shares in the Company, but as at that date the beneficial interests in the shares retained by LLC were held by LLC's individual members.

Diligent has a wholly owned inactive subsidiary, Diligent Boardbooks Limited, an England and Wales limited liability company (see Note 8(a)).

The consolidated financial statements of Diligent Board Member Services, Inc. as at and for the period ended 31 December 2007 comprise Diligent and the 100 percent owned subsidiary Diligent Boardbooks Limited (inactive company). Diligent receives revenue primarily from the sale of one product, a corporate governance product branded as "BoardBooks™".

2) Significant Accounting Policies

The following summary of Diligent's major accounting policies is presented to assist in the interpretation of the financial statements.

Basis of presentation – Diligent's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of consolidation – The consolidated financial statements include the accounts of Diligent and its wholly-owned subsidiary (Diligent Boardbooks Limited). Diligent has not separately presented the parent company accounts as they are not materially different from the consolidated result.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Diligent considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Depreciation and amortization – Depreciation of computer and office equipment is computed on a straight line basis at rates adequate to recover the cost of the assets over their estimated useful lives, which range from three to five years. Amortization of computer software is computed on the straight-line method over

its estimated useful life, which is three years.

Intangible assets – Diligent capitalizes certain costs incurred to acquire or create software, principally related to software coding, designing system interfaces, and installation and testing of software and also software licenses. These costs are amortized in accordance with the amortization policy described above.

Fixed assets – Fixed assets are measured at cost less accumulated depreciation and any impairment losses. The estimated useful lives of fixed assets is three to five years.

Asset quality – At each reporting date, Diligent reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, Diligent estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Revenue recognition – Diligent recognises revenue as it provides services or delivers products to its customers. Revenue from installations is recognised upon completion of the installation. Revenue from the provision of Boardbooks licenses is recognised as accrued over the period at which the license is provided.

Income taxes – Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Foreign exchange gain (loss) – Diligent's functional and presentational currency is the U.S. dollar. Foreign currency transactions are translated into U.S. dollars at rates prevailing during the reporting period. Foreign currency balances have been translated at rates prevailing at the balance sheet date.

Employee benefits – Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values, using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by Diligent in respect of services provided by employees up to reporting date.

Share-based compensation – Diligent measures the cost of employee services received in exchange for an award of equity-based securities using the fair value of the award on the date of the grant, and recognizes the cost over the period that the award recipient is required to provide service to Diligent in exchange for

the award.

Diligent measures the cost of non-employee services received in exchange for an award of equity-based securities using the fair value of the award on the measurement date, which is the earlier of either the date at which a commitment for performance by the non-employee to earn the equity-based securities is reached or the date at which the non-employee's performance is complete.

Accounts receivable – Accounts receivable are recorded at fair value. The provision for doubtful accounts is based on management's assessment of amounts considered uncollectible for specific customers based on age of debt, history of payments and other relevant information.

Financial instruments – Financial instruments are recognised at fair value less any identified impairment losses.

Changes in accounting policies – This is the first period of trading. There are no comparative figures as Diligent did not trade in the previous year.

3) Term Deposit

Diligent has a term deposit (US \$76,780, NZD \$100,000) with a New Zealand bank, which bears interest at 8.83% per annum and will mature in April 2008.

4) Accounts Receivable

No allowance for doubtful accounts was provided for at 31 December 2007, as management determined that all accounts receivable were collectable in full.

5) Fixed Assets

Fixed assets at 31 December 2007 are comprised of the following:

	Computer Equipment	Office Equipment	Total
Assets transferred	106,850	19,874	126,724
Additions	254,727	-	254,727
Closing cost carried forward	361,577	19,874	381,451
Depreciation for period	12,291	1,300	13,591
Total accumulated depreciation	12,291	1,300	13,591
Total fixed assets	349,286	18,574	367,860

6) Intangible Assets

Intangible assets at 31 December 2007 are comprised of the following:

	Computer Software
Assets transferred	103,537
Additions	44,923
Closing cost carried forward	148,460
Depreciation for period	11,820
Total accumulated depreciation	11,820
Total intangible assets	136,640

7) Obligations Under Capital Leases

Obligations under capital leases consist of three financing arrangements entered into by Diligent to acquire computer equipment. All the leases bear interest rates ranging from 6.8% to 33.9% per annum, with monthly payments ranging from \$130 to \$1,439, and maturities from September 2009 to July 2011.

Each lease is secured by the underlying leased asset. Amortization of assets recorded under capital leases is included in depreciation expense.

The following is a schedule of future minimum lease payments as of 31 December 2007:

Year ended 31 December	\$
2008	143,013
2009	134,159
2010	50,921
2011	4,606
Total minimum lease payments	332,699
Less interest portion of payments	62,219
Present value of future minimum lease payments	270,480

8) Customer Deposits

Customer deposits represent consideration paid in advance of services provided.

9) Related Party Transactions

- a) Note receivable – At balance date, Diligent had advanced funds totaling \$6,715,232 (including accrued interest of \$25,219) against a maximum commitment of \$6,800,000, to LLC. The outstanding loan bears interest at 5% per annum, which shall be payable in arrears on the first day of each

calendar quarter, commencing 1 April 2008. The interest accrues on the loan balance for the first four quarters. The loan matures on 30 September 2010, when the entire principal balance and all accrued interest will be due and payable.

- b) Research and development expense – Diligent incurred research and development costs of \$311,789 for services rendered during the period by Diligent Board Member Services NZ Limited, an affiliate through common ownership.
- c) Marketing expense – Diligent incurred marketing expense of \$54,000 for services rendered during the period by Yankee Hill Company, LLC, an affiliate through common ownership.
- d) Rent expense – Diligent subleases on an informal month-to-month basis its New York City and New Jersey offices from its affiliates through common ownership. The lease for New York City office requires a monthly rent of \$6,000 and will expire in April 2008. The lease for New Jersey office requires a monthly rent of \$4,250 and will expire in June 2008. Rent expense paid to these related parties for the current period was \$31,137.
- e) As at balance date LLC held 68,484,611 shares in Diligent (including 14,000,000 shares held in escrow) beneficially for the underlying shareholders of LLC.

The intention in the 8 November 2007 prospectus was to have shares transferred to the underlying beneficial owners of LLC, but this transfer had not been completed as at 31 December 2007. However this transfer has been completed post balance date.

Key Management Personnel Compensation

The following payments were made to key management personnel. Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of Diligent.

Key management personnel	\$
Short term benefits	508,787
Post-employment benefits	-
Other long term benefits	-
Termination benefits	-
Share based payments	897,000
Total	1,405,787

10) Equity

	Common Stock (\$.001 Par Value)	Additional Paid-in Capital (\$)	Accumulated Deficit (\$)	Total (\$)
	Shares (#)	Amount (\$)		
Initial capital contribution	68,484,611	68,485	-	68,485
Initial public offering	24,000,000	24,000	18,367,200	18,391,200
Capital raising costs	-	-	(2,020,020)	(2,020,020)
Conversion of debt to equity	7,515,389	7,515	5,629,028	5,636,543
Share-based compensation	2,071,000	2,071	-	1,782,219
Net loss	-	-	(3,670,056)	(3,670,056)
Balance, 31 December 2007	102,071,000	\$ 102,071	\$ 23,756,356	\$(3,670,056) \$20,188,371

Capital management – Diligent policy is to maintain a strong capital base to maintain investor and market confidence and to sustain future development of the business. Diligent is not exposed to any externally imposed capital requirements.

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

11) Earnings and Diluted Earnings Per Share

Earnings per share	3 mths to 31-Dec-07 US GAAP \$US
Earnings (Loss)	(3,670,056)
Weighted average stock on issue over period	102,071,000
Earnings per share	\$ (0.04)
Diluted earnings per share	
Weighted average stock on issue over period	102,071,000
Dilution effect of employee stock not vested	1,929,000
	104,000,000
Diluted earnings per share	\$ (0.04)

12) Capitalization

- a) On 1 October 2007 Diligent entered into a "Contribution Agreement" with LLC whereby LLC would transfer to Diligent all assets related to the board books business including its accounts receivables, listing costs, fixed assets and security deposits, as well as its capital lease obligations and customer advances payable.

Assets transferred

Accounts receivable	\$ 323,294
Prepaid expenses (listing costs)	230,834
Fixed assets, net	126,725
Intangible assets	103,537
Security deposits	52,618

Liabilities assumed

Obligations under capital leases	\$ (197,814)
Customer deposits	(382,444)
Net assets transferred	256,750

The valuations were based on LLC's carrying values. The excess of assets contributed over liabilities assumed was reduced to \$68,485 by the issuance of a demand note from Diligent to LLC in the amount of \$188,265, which in turn was netted against the balance of the loan from Diligent to LLC (see Note 9(a)).

As part of the "Contribution Agreement", LLC transferred all intangible property, customer contracts, and all shares in LLC's wholly owned subsidiary, Diligent Boardbooks Limited, an England and Wales limited liability company.

- b) Under the prospectus dated 8 November 2007 Diligent made its initial public offering on the New Zealand Stock Exchange (NZSX) and raised \$16,371,180, net of listing costs totaling \$2,020,020, through issuing 24,000,000 shares of common stock to investors. Diligent's shares were listed on NZSX as from 12 December 2007.

Prior to Diligent's initial public offering, LLC as a founder of Diligent was required to place 14,000,000 of Diligent's common shares into an escrow account to be held by the escrow agent through preliminary reporting of Diligent's results for the year ended 31 December 2008, at which time, these shares will be released to LLC if Diligent's sales milestone, as defined, is met; otherwise, these shares will be delivered to Diligent for cancellation.

- c) In addition, on 10 December 2007, 7,515,389 shares of common stock were issued by Diligent to various external and related party debt holders in exchange for their debt in the amount of \$5,636,543.
- d) On 8 November 2007, Diligent granted 4,000,000 shares of restricted common stock to selected employees (3,064,000 shares), directors (200,000 shares) and consultants (736,000 shares) of Diligent, and its affiliates, as consideration for their services. Of these shares, 2,071,000 shares were fully vested upon issuance on 12 December 2007 and 1,929,000 shares will be fully vested on 1 January 2009. The fair value of the awards to employees was USD 0.69 per share, which is the closing price of Diligent's stock on 12 December 2007. The fair values of the awards to non employ-

ees were closing prices of various measurement dates. During the period, compensation costs totaling \$1,782,219 were recognized, of which, \$1,176,541 related to employees, \$137,934 to directors, and the remaining \$467,744 to consultants. Total unrecognized compensation cost related to non-vested restricted stock at 31 December 2007 was \$970,228 and is expected to be recognized over the following twelve months. (See Note 10).

13) Stock Option and Incentive Plans

A Diligent 2007 Stock Option and Incentive Plan authorizes the granting of awards to selected employees, directors and consultants of Diligent, and its affiliates in the form of incentive stock options, non-qualified stock options, and restricted stock awards. The Plan will be administrated by Diligent's Board of Directors. Diligent's Board of Directors will determine the number of shares, the term, the frequency and date, the type, the exercise periods, any performance criteria pursuant to which awards may be granted and the restrictions and other terms and conditions of each grant of restricted shares in accordance with the term of the Plan.

On 8 November 2007, 4,000,000 shares of restricted stock were granted and no options were granted.

An additional 6,000,000 shares are available for future awards, still to be approved by the Board.

14) Commitments and Contingencies:

Operating leases - On 1 October 2007, Diligent entered into an operating lease agreement for office space in Sag Harbor, New York for one year. The terms of the lease require an annual rent of \$19,200. The rental expense for the three months ended 31 December 2007 was \$4,800.

In addition, in August 2007, prior to the incorporation of Diligent, Diligent's wholly-owned subsidiary entered into an operating lease agreement for office space in London, Great Britain for five years. The terms of the lease require an annual rent of approximately \$55,000 (£27,500). The rental expense for the three months ended 31 December 2007 was \$17,815.

No guarantees are held under the terms of the lease over Diligent's assets.

February 2008, Diligent entered into an operating lease agreement for its office space at New York City with a third party for seven years from 1 April 2008. The lease requires payments totaling \$1,609,118 over seven years. The company is to contribute \$95,000 toward fitout work to be completed by the landlord.

The following is a schedule of future minimum lease payments as of 31 December 2007:

Year Ending 31 December	\$
2008	\$ 118,900
2009	55,000
2010	55,000
2011	55,000
2012	32,000
	<u>\$ 315,900</u>

15) Supplemental Cash Flow Information:

Cash payments for interest for the period ended 31 December 2007 totaled \$10,010.

Non cash investing and financing activities:

On 1 October 2007, Diligent received certain assets and assumed certain liabilities from LLC and issued 68,484,611 of its common shares to LLC (see Note 12).

On 8 November 2007, Diligent granted 4,000,000 shares of restricted common stock to selected employees and contractors as consideration for their services (see Note 12).

On 10 December 2007, 7,515,389 shares of common stock were issued by Diligent to various external and related party debt holders in exchange for their debt (see Note 12).

16) Income Taxes

The tax reconciliation for continuing operations for the period ended 31 December 2007:

	3 mths to 31-Dec-07 \$US
Net profit (loss)	(3,670,056)
Adjustments:	
Non deductible share based compensation	1,782,219
Non deductible travel, meals & entertainment (50%)	33,831
Net taxable profit (loss)	(1,854,006)

No deferred tax asset is provided for. In assessing the realisability of deferred tax assets, represented by tax losses carried forward, management considers whether it more likely than not that some portion or all of the deferred tax assets will be realised or not. Diligent (after 3 months of operating) is unable to determine at this stage when Diligent will derive sufficient taxable income to utilise current taxable losses. At this stage a deferred tax benefit has not been recognised by management as a valuation allowance has been fully recognised on this asset.

17) Audit Fees

Fees payable for the audit of the financial statements for the period ended 31 December 2007 are estimated to be \$40,000. Under US GAAP audit fees for the year under audit are not accrued until the service is provided. Other fees totalling \$80,148 were paid to the auditors by Diligent or related companies as part of Diligent's initial public offering.

No fees were paid to the auditor for other services.

18) Financial instruments

Functional and presentation currency – Items included in the financial statements of each of the subsidiaries' operations are measured using the currency of primary economic environment in which Diligent operates ('the functional currency'). The financial statements are presented in US dollars, rounded to the nearest dollar, which is Diligent's functional and presentation currency.

Interest rate risk – Interest rate risk is the risk that market interest rates will change and impact Diligent's financial results by affecting the rate of interest charged or received by Diligent. It is not expected that changes in the interest rate will materially alter the reported profit or loss.

Currency rate risk – Diligent is subject to currency rate risk primarily from export sales to Australia, Great Britain and New Zealand.

Liquidity risk – Diligent manages liquidity risk by maintaining adequate reserves, banking facilities, and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Concentrations of credit and other risks – Diligent sells its service to a diverse number of customers and performs ongoing credit evaluations of its customers' financial condition as part of its accounts receivable monitoring procedures. Diligent maintains reserves for potential credit losses and such losses have not exceeded management's expectations. Financial instruments which potentially subject Diligent to concentrations of credit risk consist primarily of trade accounts receivable. One customer accounted for approximately 35% of Diligent's trade receivables at 31 December 2007. No single customer generated more than 10% of revenue for the period.

Diligent maintains its cash balances with high credit quality banking institutions in the United States, New Zealand and Great Britain. At times the balances may be in excess of the insurance limits at a particular bank.

19) Events subsequent to balance date

On 1 January 2008 Diligent purchased the shares of Diligent Board Member Services NZ Limited for NZ \$5,000.

Subsequently, on 18 February 2008, LLC pledged an additional 13,500,000 shares of Diligent's common stock, including all dividends and distributions payable with respect thereto, owned by LLC. The shares are pledged in the event that the LLC note receivable is not repaid. These shares are available to offset LLC's obligation should the obligation not be repaid in accordance with the promissory note agreement dated 1 October 2007.

In February 2008, Diligent entered into an operating lease agreement for its office space at New York City with a third party for seven years from 1 April 2008. The lease requires payments totaling \$1,609,118 over seven years. The company is to contribute \$95,000 toward fitout work to be completed by the landlord.



AUDITOR'S REPORT
28 March 2008

To the shareholders of Diligent Board Member Services, Inc.

We have audited the financial statements on pages 13 to 26. The financial statements provide information about the past financial performance and financial position of the company and group as at 31 December 2007. This information is stated in accordance with the accounting policies set out on pages 17 to 19.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 31 December 2007 and the results of their operations and cash flows for the three month 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 you.

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 and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to 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.

Other than in our capacity as auditors we have no relationship with or interests in the company.

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 13 to 26:
 - comply with United States generally accepted accounting practice;
 - give a true and fair view of the financial position of the company and group as at 31 December 2007 and the results of their operations and cash flows for the three month period ended on that date.

Our audit was completed on 28 March 2008 and our unqualified opinion is expressed as at that date.



KPMG
Wellington

COMPARISON TO PROSPECTIVE FINANCIAL
INFORMATION For The Period Ended 31 December 2007

The combined investment statement and prospectus issued 8 November 2007 for Diligent's initial public offer contained three months' prospective financial figures to 31 December 2007 and two years' annual prospective financial figures for the years ended 31 December 2008 and 31 December 2009. The following information is a comparison of the prospective financial statements of Diligent from the 2007 prospectus for the period ended 31 December 2007, with the actual result for the same period.

Statement of Operations

For the 3 months to	Consolidated	
	Actual	Projections
	31 Dec 2007 US GAAP \$US	31 Dec 2007 US GAAP \$US
Sales	\$ 515,103	\$ 503,178
Cost of sales	324,029	388,054
Gross profit	191,074	115,124
Selling and marketing expenses	987,043	1,047,250
General and administration expense	706,928	740,142
Research and development expense	334,039	311,051
Share-based compensation expense	1,782,219	3,000,000
Interest expense	47,862	1,692
Depreciation and amortization	25,411	10,364
Total operating expenses	3,883,502	5,110,499
Operating profit (loss)	(3,692,428)	(4,995,375)
Other income (expenses):		
Interest received	87,821	21,520
Foreign exchange loss	(65,449)	-
Net profit (loss) before tax	(3,670,056)	(4,973,855)
Provision for income taxes	-	-
Net profit (loss) after tax	\$ (3,670,056)	\$ (4,973,855)

COMPARISON TO PROSPECTIVE FINANCIAL
INFORMATION For The Period Ended 31 December 2007

Statement of Cash Flows

For the 3 months to	Consolidated	
	Actual	Projections
	31 Dec 2007 US GAAP \$US	31 Dec 2007 US GAAP \$US
Cash flows from operating activities:		
Net profit (loss) after tax	\$ (3,670,056)	\$ (4,973,855)
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortisation	25,411	10,364
Share based employee compensation	1,782,219	3,000,000
Non cash interest expense (income)	12,336	(352)
Changes in assets and liabilities:		
Accounts receivable	56,318	-
Prepaid expenses	143,482	-
Security deposits	8,878	-
Accounts payable	577,025	560,876
Customer deposits	(155,766)	127,235
Accrued expense	107,107	-
Net cash used in operating activities	(1,113,046)	(1,275,732)
Cash flows from investing activities:		
Term deposit	(76,780)	-
Purchase of fixed assets	(200,337)	-
Loans to stockholder	(3,699,290)	(6,978,987)
Net cash used in investing activities	(3,976,407)	(6,978,987)
Cash flows from financing activities		
Debt converted to shares	2,420,000	-
Increase in stockholder funds	18,391,200	23,636,541
Repayment of obligations under capital leases	(26,647)	-
Listing costs	(2,020,020)	(1,271,281)
Net cash provided by financing activities	18,764,533	22,365,260
Net increase/(decrease) in cash and cash equivalents	13,675,080	14,110,541
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	\$ 13,675,080	\$ 14,110,541

Balance Sheet

As at	Consolidated	
	Actual 31 Dec 2007 US GAAP \$US	Projections Unaudited 31 Dec 2007 US GAAP \$US
Assets		
Current assets		
Cash and cash equivalents	\$ 13,675,080	\$ 14,110,541
Term deposit	76,780	-
Accounts receivable	266,976	370,020
Prepaid expenses	87,352	-
Total current assets	14,106,188	14,480,561
Fixed assets, net	367,860	180,696
Intangible assets, net	136,640	-
Other assets		
Loan advanced to DBMS LLC	6,715,232	6,622,345
Security deposits	43,741	-
Total other assets	6,758,973	6,622,345
Total assets	\$ 21,369,661	\$ 21,283,602
Liabilities and stockholders' equity		
Current liabilities		
Current portion of obligations under capital leases	105,355	-
Accounts payable	577,025	526,946
Customer deposits	226,678	365,251
Accrued expenses	107,107	-
Total current liabilities	1,016,165	892,197
Non-current liabilities		
Obligations under capital leases, less current portion	165,125	-
Total non-current liabilities	165,125	-
Total liabilities	1,181,290	892,197
Stockholders' equity		
Stock	23,858,427	25,365,260
Accumulated surplus (deficit)	(3,670,056)	(4,973,855)
Total stockholders' equity	20,188,371	20,391,405
Total liabilities and stockholders' equity	\$ 21,369,661	\$ 21,283,602

The major variances between the prospective financial information and actual figures are as follows:

Statement of Operations

Stock-based employee compensation was projected to be \$3,000,000 for the period to 31 December 2007. When the board ratified the granting of 4,000,000 shares during the period of the initial public offering, only 2,071,000 shares were issued and fully vested. The remaining 1,929,000 shares will be fully vested on January 1, 2009.

Balance Sheet

Fixed assets and obligations under capital leases are higher than what was projected for the period. This reflects capital expenditure brought forward that was projected to occur in the 2008 income year. Capital raising costs were projected at \$1,271,281. This projected figure excluded \$301,000 listing costs planned to be paid by LLC. The actual costs relating to listing were \$2,020,020 which included those costs previously projected to be paid by LLC. Extra compliance costs were incurred in the US for the purposes of listing.

Statement of Cash Flows

The prospectus assumed a cash advance of \$6,978,987. This was instead executed differently as per the following table:

Total funds advanced to LLC	6,715,232
Less cash advanced	(3,699,290)
Total non cash amounts advanced to LLC	3,015,942
Represented by:	
Debt converted to common stock	3,178,988
Initial share capital	68,485
Accrued interest	25,219
Net assets transferred	(256,750)
Total	3,015,942

Included within the debt converted to common stock figure of \$3,178,988 is a loan made to Diligent by a lender of \$2,040,000. This was converted to equity prior to listing. The balance is comprised of previously incurred debt in LLC being converted to common stock, a non cash transaction.



Corporate Governance

Compliance With NZX Best Practice Code and Other Guidelines

The NZSX Listing Rules require listed companies to disclose in their annual report whether and to what extent their corporate governance principles materially differ from the NZX Corporate Governance Best Practice Code. The directors do not consider that there is any such material difference.

Role of The Board

The Board is elected by the shareholders and is responsible for the corporate governance of Diligent. The Board is the final body responsible for decision making within Diligent and maintaining Diligent's corporate governance and ethical business practices.

Corporate governance encompasses the requirement for the Board to discharge such responsibilities, to be accountable to the shareholders and other stakeholders for the performance of Diligent, and to ensure that Diligent is compliant with laws and standards.

The Board establishes the objectives of Diligent and is engaged in ongoing strategic planning in order to meet these objectives. It provides an oversight of compliance and risk, it measures and monitors management performance and it sets in place the policy framework within which Diligent operates.

The Board monitors financial results comparing them to the budget and annual plan at regular monthly meetings.

The Board has delegated components of its powers to subcommittees of the Board, and the day to day management of Diligent to the Chief Executive Officer. The ambit of these delegations is documented in Diligent's delegations policy, sub-committee Terms of Reference and by relevant minuted resolutions of the Board. The Chief Executive Officer delegates certain authorities to staff that report to him.

Board Composition and Membership

As at 31 December 2007 the Board comprised nine directors: an independent non-executive Chairman, four executive directors, three independent directors and one non-executive director. The Board has a broad base of knowledge and experience in software development and commercialization, corporate governance, financial management, legal compliance and other expertise to meet Diligent's objectives.

The details, background and place of residence of the directors are detailed above. The Chairman is elected by the Board and it is his role to manage the Board in the most effective manner and to provide a conduit between the Board and the Chief Executive Officer. He has no significant external commitments that conflict with this role. The Board maintains an Interests Register and conflicts of interest are recorded if necessary in the minutes. Procedures for the operation of the Board, including the appointment and removal of directors, are

governed by Diligent's Bylaws.

Operation of the Board

The Board meets monthly on a formal scheduled basis. In addition to these monthly meetings the Board meets on other occasions to debate strategic and financial issues. Each month the Chief Executive Officer prepares a report to the Board that includes a summary of Diligent's activities, together with financial reports and operational updates. In addition, the Board receives regular briefings on key strategic issues from management, both as part of the regular scheduled Board meetings and in separate strategic planning sessions.

Chief Executive Officer

The Board is responsible for the evaluation of the Chief Executive Officer against his key performance objectives and is responsible for the setting of these objectives on a periodic basis and ensuring that they are appropriate measurable targets.

The Chief Executive Officer provides a financial and compliance report to the Audit and Compliance Committee, which currently meets monthly.

Independence of Directors

To be "independent" a director must, in the opinion of the Board, be removed from any relationship or business that could materially interfere or be reasonably perceived to materially interfere with the exercise of his or her independent judgment.

It has been determined by the Board that there are four executive directors, four independent directors and one other non-executive director. All executive directors are also officers of Diligent.

All directors are required to immediately advise if any new relationships would interfere with such independence and so enable the Board to consider and determine the materiality of the relationship. These relationships are noted in the Interests Register which is updated at each monthly board meeting.

Rotation of Directors

In accordance with Diligent's Bylaws, at each annual meeting of Diligent all directors must retire from office and are subject to re-appointment at each annual meeting.

Board Committees

The Board maintains two formally constituted standing Board Committees: the Audit and Compliance Committee and the Remuneration and Nominations Committee. The two Board Committees and their memberships as at 31 December 2007 are set out in the following chart:

Director	Membership Classification	Committee Membership	
		Audit and Compliance	Remuneration and Nomination
R. Bettle	Independent Director	Chairman	
E. Charlton	Independent Director (Chairman)		Chairman
S. Daniels	Executive Director		
B. Henry	Executive Director		
P. Huljich	Non-executive Director	Member	Member
K. Lawler	Executive Director		
M. Russell	Independent Director	Member	Member
G. Saxton	Independent Director	Member	Member
A. Sodi	Executive Director		

Audit and Compliance Committee

The Audit and Compliance Committee is responsible for monitoring the ongoing effectiveness and implementation of compliance activities. Membership of the Committee is restricted to non-executive directors and the majority of directors must be independent directors. The Audit and Compliance Committee includes members who have appropriate financial and legal experience. All members of the Audit and Compliance committee satisfy the independence requirements under NZX best practice.

The main responsibilities of the Audit and Compliance Committee are to:

- Monitor and oversee the quality of financial reporting and financial management. The Committee considers accounting and audit issues and makes recommendations to the Board as required and monitors the role, responsibility and performance of the external auditor.
- Assist the Board to review the effectiveness of the organisation's internal control environment covering:
 - Effectiveness and efficiency of operations;
 - Reliability of financial reporting; and
 - Compliance with applicable laws and regulations
- Oversee the effective operation of the risk management framework
- Recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement and the scope and quality of the audit
- Review and approve, before commencement, the nature and scope of non-audit services being provided by the external auditors
- Ensuring compliance with Diligent's disclosure obligations under the NZSX Listing Rules

The Chief Executive Officer attends each monthly Committee meeting by invitation as do the chartered accountant advisors and external auditor when required.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee's purposes are to review directors' fees, the Chief Executive's compensation package and performance, the policy for compensation for senior management and ensure Diligent has formal and transparent processes for the nomination and appointment of directors to the Board and identifying skill gaps on the Board to ensure diversity and expe-

rience on the Board. These reviews form the basis of recommendations to the Board. Details of directors' compensations are set out under the section heading "Directors compensation". Membership of the committee is restricted to non-executive directors and the majority of directors must be independent directors. The Chairman of the committee is an independent director.

Code of Ethics

Diligent expects all its employees and directors to maintain the highest ethical standards.

The directors support the principles set out in the "Codes of Proper Practice for Directors" issued by the Institute of Directors in New Zealand. Whilst recognizing that the Code expresses principles and does not purport to determine the detailed course of conduct by directors on any particular matter, the directors are committed to the highest standards of behavior and accountability.

Conflicts of Interest

If conflicts of interest exist in any transaction, then a director must declare his or her conflict or interest and not exercise his or her right to vote in respect of such matters. Diligent maintains an Interests Register which is updated at each monthly board meeting.

Audit Governance and Independence

The Board approved the appointment of KPMG as auditors for the period ended 31 December 2007. The Board has set the remuneration of the auditors and will seek approval of the auditors re-appointment at the next Annual Meeting.

The work of the auditors is limited to audit and related work only and Diligent is committed to auditor independence. The Board, through the Audit and Compliance Committee, annually reviews the independence and objectivity of the auditors. No managers, partners or directors of the auditor hold shares in Diligent. In addition, the lead audit partner must rotate after a maximum of seven years, and the auditor must confirm annually its commitment to strict procedures to ensure independence.

Representatives of Diligent's auditors are invited to the Annual Meeting.

Reporting and Disclosure

Annual and Interim Reports in accordance with the requirements of the Financial Reporting Act 1993 and the NZSX Listing Rules are communicated to all shareholders. The annual financial statements are audited. The annual report is available on line at the website www.boardbooks.com.

Shareholder Relations

The Board's policy is to ensure that shareholders are informed of all major and strategic developments affecting Diligent's state of affairs. Media releases are made and Diligent releases all material information to NZX under continuous disclosure requirements.

Statutory Information

31 December 2007 Shareholding

As at 31 December 2007 Diligent Board Member Services LLC ("LLC") was the nominal holder of a majority of the issued shares in the Company, but as at that date the beneficial interests in the shares retained by LLC were held by LLC's individual members.

As at 31 December 2007, LLC was the registered holder of 68,484,611 shares in Diligent. The shares held by LLC were beneficially held by the following parties.

	Interest	
	31-Dec-07	%
Brian Henry Living Trust & Kiri Borg Living Trust	15,990,046	23.35%
S K Daniels Holdings Limited	7,991,106	11.67%
Sharon Daniels	8,001,321	11.68%
Corcoran Consulting, LLC	5,702,050	8.33%
Carroll Capital Holdings, LLC	15,451,325	22.56%
Alessandro Sodi	5,318,050	7.77%
Harvey F Carter Family Trust	2,005,632	2.93%
Creative Juice Limited	1,900,492	2.78%
Marc Daniels	3,416,988	4.99%
Robert Borg	683,398	1.00%
Winiford Borg	1,025,096	1.50%
Borg Henry Family Grandchildren's Trust	854,247	1.25%
Interests associated with Peter Huljich	144,861	0.21%
Total	68,484,611	100.00%

Directors' Relevant Interests In Diligent Shares as at 31 December 2007

Directors' relevant interests in Diligent shares as at 31 December, 2007 were as follows.

	Beneficial Interest		Non-beneficial Interest	
		%		%
R Bettle	50,000	0.05%	-	-
E Charlton	50,000	0.05%	-	-
S Daniels	15,992,427	15.37%	-	-
B Henry	16,525,501	15.89%	-	-
P Huljich	407,493	3.92%	3,499,597	3.36%
K Lawler	350,000	0.34%	-	-
M Russell	50,000	0.05%	-	-
G Saxton	50,000	0.05%	-	-
A Sodi	5,318,050	5.11%	-	-

Based on 104,000,000 shares

Directors' Dealings In Shares

Diligent maintains an Interests Register in which the particulars of certain transactions and matters involving directors are recorded. The following table summarizes the directors' share dealings in Diligent.

	Date of Transaction	Beneficial Interest	Consideration Paid \$NZ	Non-Beneficial Interest	Consideration Paid \$NZ
R Bettle *	21.12.07	50,000	-	-	-
E Charlton *	21.12.07	50,000	-	-	-
S Daniels **	1.10.07	15,992,427	-	-	-
B Henry **	1.10.07	16,525,501	-	-	-
P Huljich ***	1.10.07				
	- 31.12.07	407,493	406,382	3,499,597	3,499,597
K Lawler *	21.12.07	350,000	-	-	-
M Russell *	21.12.07	50,000	-	-	-
G Saxton *	21.12.07	50,000	-	-	-
A Sodi **	1.10.07	5,318,050	-	-	-

* These directors were allocated shares for their services to Diligent at nil consideration.

** These directors acquired a beneficial interest in their shares through their shareholding in LLC which received shares in Diligent pursuant to a Contribution Agreement dated 1 October 2007.

*** This director received 50,000 shares as per * above for nil consideration. All other shares acquired by the director or interests associated with the director were purchased at NZ\$1.00 per share except for 11,112 shares purchased at NZ\$0.90 per share.

The open market shares were issued December 2007 at the initial public offer pursuant to the prospectus dated 8 November 2007.

Directors' Indemnity and Insurance

Diligent has directors' & officers' liability insurance cover to the sum of US\$5,000,000 in the aggregate. The cover includes employment practices and securities liability.

Loans To Directors

There have been and are no loans directly made to directors.

Diligent provided a loan to LLC of US\$6,715,232 on completion of the initial public offering of Diligent. The funds were used by LLC to repay debts incurred during the development of the boardbooks business by LLC. The following directors have an interest in LLC as follows:

	Relevant interest	%
S Daniels	Direct & beneficial	23.35%
B Henry & K Borg	Direct & beneficial	23.35%
A Sodi	Direct	7.77%

Other Directors' Interests

	Relevant interest
M Russell	Partner of Buddle Findlay
B Henry & K Borg	Beneficiaries of trust which sold Diligent Board Member Services (NZ) Limited to Diligent

On the appointment of Mark Russell as a director Buddle Findlay appointed another partner to provide legal advice to Diligent. There have been no other external transactions in which directors have declared an interest.

Directors' Compensation

The current annual directors' fees payable to all independent directors of Diligent totals US\$320,000 per annum. The following table summarises the compensation for the period to 31 December 2007 of the directors of Diligent:

Director	Directors' Fees \$US	Other Fees / Salaries \$US	Shares Granted 1 \$US	Total \$US
R Bettle	12,148		34,500	46,648
E Charlton	13,689		34,500	48,189
S Daniels		67,326		67,326
B Henry		82,500		82,500
P Huljich	12,148		34,500	46,648
K Lawler		30,750	241,500	272,250
M Russell	12,148		34,500	46,648
G Saxton	11,626		34,500	46,126
A Sodi		70,112		70,112

1. Assessed at \$0.69 per share as at 12 December 2007

No other benefits were received by the directors of Diligent. Reimbursements of appropriate costs (mainly airfares and accommodation for meetings) were made.

Acquisition of Subsidiary

Diligent entered into a Share Sale and Purchase Agreement dated 4 October 2007 relating to the sale of shares in Diligent Board Member Services NZ Limited to Diligent for NZ\$5,000. This transfer was executed as at 1 January 2008. B Henry and K Borg are beneficiaries of The Clifton Trust which was an owner of Diligent Board Member Services NZ Limited. Diligent is executing documentation to effect the directors of Diligent Board Member Services NZ Limited to be R Bettle, M Russell, K Lawler and P Huljich.

Entries In interest Register

Details of the foregoing directors' interests were duly entered into Diligent's interest register during the period. In addition, the interests register contains full details of statutory, substantial security holders, and directors and officers disclosures of relevant interests in the company's shares.

Subsidiaries and Directors Thereof

S. Daniels held the office of director of Diligent Board Books Limited (UK-based company). No director of any subsidiary received beneficially any director's fees or other benefits as a director of the subsidiary Company.

Continuous Disclosure Obligations

Continuous disclosure obligations of NZX require all listed companies to advise the market about any material events and developments as soon as Diligent becomes aware of them. Diligent complies with these obligations on an ongoing basis.

Insider Trading Policy

Diligent has established an Insider Trading Policy that applies to all directors and employees. Under the policy, directors and employees may not trade Diligent shares when they have price sensitive information that is not publicly available.

Treasury Policy

Diligent has drafted a Treasury Policy to manage interest rate and foreign exchange risks. The policy approves the use of certain instruments for risk management purposes, and it prohibits any activity that is purely speculative in nature. It also sets out exposure limits, delegated authorities and internal controls. The Board is yet to approve this policy.

Employee Compensation

Diligent has over 35 employees, who are principally located in the United States of America. The Board, with advice from the Remuneration and Nominations Committee, establishes remuneration and nominations policies and this is implemented by operational managers.

Grouped below are the numbers of employees or former employees of Diligent and its subsidiaries (excluding company directors whose remuneration and benefits are disclosed elsewhere) who received compensation and other benefits in their capacity as employees, totalling US\$20,000 or more as an employment package during the three month period to 31 December 2007. Executive remuneration includes all salary and bonuses, shares granted and any other sundry benefits received in their capacity as employees.

Compensation Ranges \$US (000)	No. Of Employees 2008
Less than 20	22
20 – 30	5
30 – 40	3
40 – 50	-
50 – 60	1
60 - 70	1
70 – 80	-
80 - 90	-
90 – 140	-
140 – 150 *	2
150 – 240	-
240 – 250 *	1
250 – 260	-
260 – 270 *	1
280 +	-
	36

* these employees were granted a one off allocation of shares as part of the initial public offer and the 2007 stock option and incentive plan.

Donations

Diligent made donations of US\$100 during the year.

SHAREHOLDER INFORMATION

The ordinary shares of Diligent are listed on NZSX. The information in the disclosures below has been taken from Diligent's share register at 11 March 2008.

Twenty Largest Registered Shareholders as at 11 March 2008

Shareholder	Address	Shares	%
Diligent Board Member Services, LLC	New York, USA	28,500,000	27.40%
Brian Henry Living Trust and Kiri Borg Living Trust	East Hampton, USA	9,790,441	9.41%
Carroll Capital Holdings, LLC	USA	9,130,425	8.78%
New Zealand Central Securities Depository Ltd	Wellington, NZL	6,974,730	6.71%
Sharon Daniels	New Jersey, USA	4,664,498	4.49%
S.K. Daniels Holdings, Inc.	New Jersey, USA	4,658,543	4.48%
Corcoran Consulting, LLC	Ohio, USA	3,324,101	3.20%
Alessandro Sodi	New York, USA	3,100,242	2.98%
Marc Daniels	New Jersey, USA	1,991,988	1.92%
Accident Compensation Corporation	Wellington, NZL	1,700,000	1.63%
Creative Juice Limited	Auckland, NZL	1,301,005	1.25%
Harvey F. Carter Family Trust	California, USA	1,169,215	1.12%
Winiford Borg	New York, USA	1,160,929	1.12%
Matthew James Pringle	Auckland, NZL	1,000,000	0.96%
CPH Trust	Auckland, NZL	878,608	0.84%
PRH Trust	Auckland, NZL	878,606	0.84%
O'Connor Family Trust Partnership	Auckland, NZL	642,622	0.62%
Leveraged Equities Finance	Wellington, NZL	630,823	0.61%
Robert Borg	New York, USA	628,398	0.60%
Rotoruatrust Perpetual Capital	Rotorua, NZL	600,000	0.58%
		82,725,174	79.54%

Distribution of Shareholders as at 11 March 2008

Holding Ranges	Number of Holders	Number of Shares	%
1 – 999	-	-	0.00%
1,000 – 4,999	227	385,850	0.37%
5,000 – 9,999	155	888,205	0.85%
10,000 – 49,999	320	5,204,638	5.00%
50,000 – 99,999	56	3,331,300	3.20%
100,000 – 499,999	56	10,949,833	10.53%
500,000 – 999,999	7	4,774,057	4.59%
1,000,000 and over	14	78,466,117	75.45%
	835	104,000,000	100.00%

As at 31 December 2007 LLC was the nominal holder of a majority of the issued shares in Diligent, but as at that date the beneficial interests in the shares retained by LLC were held by LLC's individual members.

Substantial Security Holders

The following information is given in accordance with Section 26 of the Securities Markets Act 1988. According to notices received, the following persons were substantial security holders in Diligent as at 11 March 2008.

	Date of Notice	Relevant Interest	%
S Daniels	13.12.07	15,992,427	15.37%
B Henry & K Borg	13.12.07	16,525,501	15.89%
P Huljich	13.12.07	8,770,773	8.43%
A Sodi	13.12.07	5,318,051	5.11%
Carroll Capital Holdings LLC	13.12.07	15,574,149	14.97%
Corcoran Consulting LLC	13.12.07	5,702,049	5.48%
Huljich Unit Trusts*	28.02.08	5,482,280	5.27%
P Huljich	28.02.08	3,906,884	3.76%

The total number of issued voting securities as at 11 March 2008 was 104,000,000.

* Supercedes 13 December 2007 disclosures.

Current NZSX Waivers

Diligent obtained several waivers from various NZSX Listing Rules that relate to where listing rules are directly inconsistent with Delaware and United States federal law. The waivers were granted 6 November 2007.

Waivers were granted from Listing Rules 3.1.1 (c), (d) and (e) where compliance with these rules would result in a contravention or breach of Delaware laws, US federal laws, Diligent's Certificate of Incorporation or Bylaws, or other applicable USA laws.

Waivers were granted from Listing Rules 4.8 and 4.8.5 regarding takeovers on the condition that prominent and full disclosure and explanation of takeovers law and relevant Listing Rules that apply in the event of a takeover of Diligent are included in the offer document.

Waivers from Listing Rule 11.1.1 and approval under Listing Rule 11.1.5 were granted to restrict the transfer of its shares issued under the initial public offering to US persons for a 12 month period following the close of the initial public offering. Conditions were attached to the waiver.

Details of the waivers are available for viewing under the DIL code on the NZX website.

Escrow


An escrow agent holds 14,000,000 shares in Diligent pending the confirmation of Annualised Licence Fees as at 31 December 2008. In accordance with the Shareholder Restriction Deed and associated Escrow Agreement, should the level of annualised fees be less than US\$10,800,000, all or a portion of these shares held in escrow will be cancelled.

Credit Rating

Diligent has no credit rating.

Directors Statement

The Annual Report is dated 28 March 2008 and is signed on behalf of the Board by:



Rick Bettle
Director



Mark Russell
Director

Directors

Edward Charlton (London, UK)
Alex Sodi (New York, USA)
Brian Henry (New York, USA)
Rick Bettle (Wellington, NZ)
Sharon Daniels (New Jersey, USA)
Peter Huljich (Auckland, NZ)
Kevin Lawler (Christchurch, NZ)
Mark Russell (Christchurch, NZ)
Guy Saxton (London, UK)

Senior Management

Alex Sodi (Chief Executive Officer)
Brian Henry (Global Sales Director)
Sharon Daniels (Chief Marketing Officer)
Kiri Borg (Corporate Secretary)
Don Meisner (Chief Financial Officer: USA)
Marc Daniels (Chief Operating Officer)
Kevin Lawler (Finance Director)
Tricia Burke (Vice President, IT)
Al Percival (Vice President, Software Services)
Bryan Zwahlen (Vice President, Support)

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Christchurch
New Zealand

United States
Thomas Makeig, Springfield, Iowa
Lathrop and Gage, Kansas City, Missouri
United States of America

Auditor

KPMG
Wellington
New Zealand

Accounting Advisors

Grant Thornton Limited
Christchurch
New Zealand

Bankers

HSBC
New York
United States of America

ANZ National Bank
Christchurch
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Share Registrar

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2008 Reporting CalendarFebruary

– 2007 Annual Profit Announcement

April

– Mailing of Annual Report for 2007 Year

May

– Annual Meeting held in NZ

June 30

– Half Year

September

– Announcement for Half Year result

– Mailing of Half Year Report

December 31

– End of Financial Year