HOSTECH LIMITED

AND ITS CONTROLLED ENTITIES

ABN 98 009 805 298

ANNUAL REPORT

YEAR ENDED 30 JUNE 2009

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I present the Chairman's report for Hostech Limited for the year ended 30 June 2009 with a commentary on the past year and the future of the business.

Over the past year the Company has continued through a transformation that sees Hostech as a public company focused on building and maintaining a leadership position in the business telephony market.

Major steps forward were taken over the last 12 months, including strengthening of the board, completion of a major equity placement and preparation for a material acquisition.

I joined the board in June upon completion of a significant placement to Flaxton Hunter Pty Limited, a group with which I am associated. Further changes to Board membership have been made so that we now have a combination of shareholder representation and strong industry independence and, as a team, we can continue to drive the business forward.

At the outset, I saw Hostech as a company with the fundamental building blocks in place and a focus around a core proposition to maximize revenue opportunities from the lucrative business telephony market. The business has the capability to provide both traditional business phone system solutions (PABX) and the emerging, hosted, internet based telephony through its Sholl and OneNetwork brands respectively.

The key focus of the Board through the next 12 months is to add scale to the Company, both through acquisition and organic growth.

We estimate that every handset (or end point) that sits in a business generates over $120 of revenue per month on average. The revenue value chain is made up of telephone carriage, hardware, installation, support and maintenance. Our goal is to capture as many end points and as much revenue as possible from the value chain. We will increase our focus on areas such as carriage, maintenance and hardware margins. Ultimately, our aim is to shift our sales focus to building a higher proportion of recurring annuity revenue to build sustainability and consistency in our results.

There are over 800,000 businesses in Australia in the small to medium business sector, our target market. This represents millions of potential end points each generating $120 of high margin revenue per month.

All acquisitions being considered, including our first target, must deliver positive cash flow and profit, as well as either improving margin to our existing business or increasing distribution opportunities. By successfully achieving these goals, Hostech will see itself into profitability.

The clear focus of the board is to engineer a Company capable of paying dividends.

The positive outlook does not temper the difficult year that the Company has endured. Despite a very difficult market it was able to increase revenue from $4,569,096 to $5,308,495, an increase of 16.18%. The overall loss for the year was $7,949,328, comprised of write downs to goodwill of $6,315,241 and an operational loss of $1,634,087 (compared to $5,188,210 in year ended 30 June 2008), incurred as the Company struggled to build the necessary scale in its existing operations to cover the costs associated with being a public company.

The decision by the new Board to write down goodwill was not one taken lightly; it followed a significant review of the Company's strategy, its operations and business plans going forward. The review showed that Hostech carried a significant proportion of its asset base as intangible goodwill in amounts which, in comparison to other companies in our sector, was too high. We continue to recognize the future growth of our OneNetwork and Sholl brands, but we have tempered this with a more conservative balance sheet view and more realistic valuations in line with "post GFC" considerations.

Our focus is on delivering profitability and as a Board we are enthusiastic about the opportunities ahead. While the challenges are not to be underestimated, we believe that with a supportive major shareholder, a dedicated management team and exciting acquisition targets, we are well placed to deliver against expectations.

The Board thanks you for your support and looks forward to continuing a positive dialogue. As shareholders in Hostech we also encourage you to contact us on 1300 859 879 for your business telephony needs. You will be provided with industry leading solutions and be supporting your Company.

Campbell Corfe

Chairman

CORPORATE INFORMATION

Directors	Campbell Corfe – Chairman Michael Abela – Director & Chief Executive Matthew Costello – Non-Executive Director Alan Chalmers – Non-Executive Director T. S. Wills Cooke – Non-Executive Director
Company Secretary	Justyn Stedwell
Registered Office	71 - 73 Thistlethwaite Street South Melbourne, Victoria, 3205 Phone: 03 9698 7800 Facsimile: 03 9698 7878
Principal Place of Business	71 - 73 Thistlethwaite Street South Melbourne, Victoria, 3205
Web address	www.hostech.com.au www.sholl.com.au www.onenetwork.com.au
Share Registry	Computershare Registry Services Pty Ltd 45 St Georges Terrace Perth, Western Australia, 6000 Phone: 1300 881 840 Facsimile: 1300 881 835
Stock Exchange	The Company's securities are quoted on the official list of the Australian Stock Exchange Ltd, the home branch being Perth
Auditors	Ernst & Young Australia
ASX Code	HTC (Shares) Formerly MBI (Shares)

Hostech Limited is a public company limited by shares and is domiciled in Australia. The group's functional & presentation currency is Australian Dollars AUD($)

DIRECTORS' REPORT

The directors present their report together with the financial report of Hostech Limited ("Hostech" or "the Company") and of the consolidated entity, being the Company and its controlled entities ("the Group" or "the consolidated entity") for the financial year ended 30 June 2009 and the auditor's report thereon.

Current Directors - Names, Qualifications, Experience and Special Responsibilities

The names, qualifications, experience and special responsibilities of the directors in office as at the date or this report are listed below. All directors, unless otherwise stated, were in office from the beginning of the financial period until the date of this report. Directors have not held directorships in other listed public companies in the three years prior to 30 June 2009 unless stated otherwise.

Campbell Corfe – Chairman (appointed 2 June 2009)

Mr. Corfe qualified as a Chartered Accountant in Australia and practiced as a Certified Public Accountant in America. He was a partner for 18 years with the global accounting firm of KMG Main Hurdman (now KPMG) in various postings in Australia, USA, Europe and Asia. Leading up to the merger with Peat Marwick, in which he was heavily engaged, he was the partner in charge of global operations for the US firm based in New York, responsible for all accounting and consulting services provided to the firm's multi-national clients.

After leaving KMPG, he became Chief Operating Officer for the Ohio, USA based Hercules Engines for 2 years. Hercules was a successful "management buy out" of an old-line manufacturing business dealing with the US Army. Mr. Corfe then returned to Australia and worked with a number of companies in the finance and insurance sector, including Amlink, Suncorp and Colonial State Bank.

Most recently, as CEO, he set up the US operations of the venture capital backed Australian mobile marketing company, 5th International, in San Francisco, USA. In this position, he has identified a number of emerging opportunities in the global mobile sector.

Mr. Corfe is a member of several boards, including 5th Finger and Youi Insurance. He brings to the board of Hostech a wealth of experience and strategic direction, both local and international.

Michael Abela – Director & Chief Executive

Mr. Abela has completed a Bachelor of Business and Marketing and a Graduate Diploma of Management. He has had extensive experience over the last 15 years in a range of senior management positions covering sales and marketing, operations and finance with a particular focus in the telecommunications and technology sector.

He was previously a principal of a successful boutique corporate advisory and investment bank. Mr. Abela was also formerly Managing Director of ASX listed company Quadrant Iridium Ltd (now Fulcrum Equity Limited, appointed 7 January 2003 & resigned 31 January 2006). Mr. Abela is also Non-Executive Chairman of ASX listed Mercury Brands Limited a position held since 28 September 2007.

Terry Wills Cooke – Non-Executive Director

Mr. Wills Cooke is the Managing Director of the Techard Company Pty Ltd, a consulting company that specialises in corporate and marketing strategic planning, plan facilitation, marketing issues and contract negotiation. Mr. Wills Cooke has a considerable level of experience with a diverse range of Australian and foreign organisations.

Mr. Wills Cooke has extensive experience at board level. He is currently Chairman of Clear Edge Australia, a division of the world's largest engineered textile filtration producer and Deputy Chairman of the industry superannuation fund for many of Australia's private schools. He Chairs Durbridge Pty Ltd, a residential land development company operating in the Geelong and Surf Coast areas and is also Chairman of six other non-associated private Companies.

Mr. Wills Cooke is a Fellow of the Australian Institute of Management and was formerly a Senior Lecturer in Marketing with them. He is also a Founding Fellow of the Australian Institute of Company Directors and has wide recognition in the professional marketing field in Australia.

Matthew Costello – Non-Executive Director (appointed 2 June 2009)

Mr. Costello holds a Masters of Finance Management degree and is currently completing his MBA at MGSM. He is also a member of the Australian Institute of Company Directors holding several board positions with small private companies including 5th Finger (5th International Group Pty Ltd).

As a founding member of 5th Finger, Mr. Costello has worked over the last 9 years to help shape the mobile industry in Australia. After selling the Australian interests of 5th Finger to ninemsn (a joint venture involving PBL and Microsoft) in 2005, he worked with ninemsn as Mobile Sales Director to integrate mobile marketing and mobile advertising capabilities across the PBL media group.

Most recently, Mr. Costello worked with the 5th Finger International team in the US as Director Strategy, putting in place a roll out and expansion plan to build on the success of the startup launch in early 2008.

Alan Chalmers – Non-Executive Director (appointed 29 June 2009)

Mr. Chalmers is a lawyer with over 23 years experience providing legal services to a broad range of clients in the media, entertainment and telecommunications industries in Australia and overseas, in both the private and public sectors.

Mr. Chalmers has held senior legal positions at Freehills, Gadens Lawyers and, more recently, as principal of his own legal practice, MET Law. He played a key role in the major regulatory reforms of the converging media and telecommunications sectors in Australia over the decade of the 1990s, including membership of each of the government teams that drafted the Broadcasting Services Act 1992, the Radiocommunications Act 1992, and the Telecommunications Act 1997, plus the related Trade Practices Act 1974 amendments relating to competition and access for telecommunications services (together, the Communications Law). He was awarded the Public Service Medal for his role in these reforms.

Previous Directors - Names, Qualifications, Experience and Special Responsibilities

Vince Leone – Non Executive Director (resigned 2 June 2009)

Mr. Leone has a Bachelor's Degree in Engineering (with honours) and extensive experience successfully growing companies. He has assisted business leaders, from various industry sectors, leverage IT and Telecommunication systems to support their business strategies, goals and objectives.

Damian Woods – Executive Director (resigned 2 June 2009)

Mr. Woods studied Business-Marketing at RMIT before founding MPA (Now called OneNetwork Pty Ltd) in 1999. Mr Woods remains a major shareholder of Hostech.

Company Secretary - Name, Qualifications, Experience and Special Responsibilities

Justyn Stedwell

Mr. Stedwell has completed a Bachelor of Business and Commerce at Monash University and a Graduate Diploma in Applied Corporate Governance with Chartered Secretaries Australia. He is also the Company Secretary of ASX listed companies Mercury Brands Limited and Solagran Limited.

DIRECTORS' REPORT (cont)

Directors' Meetings

The company held nineteen directors' meetings during the 2008-2009 year. The attendances of the directors at meetings of the Board were:

Current director	Directors meetings attended	Meetings held whilst in office
Campbell Corfe	3	3
Michael Abela	19	19
Terry Wills Cooke	19	19
Matthew Costello	3	3
Alan Chalmers	Nil	Nil

Previous Director	Directors meetings attended	Meetings held whilst in office
Damian Woods	15	16
Vince Leone	15	16

Committee Membership

As at the date of this report the Company has an Audit Committee, a Remuneration Committee, a Risk Management Committee and an Industry Committee.

Audit Committee

Members of the Audit Committee during the financial year were:

Current Committee Member	Date Appointed
Terry Wills Cooke (Chairman)	18 June 2008
Michael Abela	23 November 2007

Audit Committee Meetings

There were two Audit Committee meeting held during the 2008-2009. Please see below for details of member's attendance at meetings.

Committee Member	Meetings attended	Meetings held whilst a member
Terry Wills Cooke (Chairman)	2	2
Michael Abela	2	2

On August 12 2009 the Audit Committee was re-structured. The members of the Audit Committee as at the date of this report, are Campbell Corfe (Chair) and Michael Abela.

Remuneration Committee

Members of the Remuneration Committee during the financial year were:

Current Committee Member	Date Appointed
Terry Wills Cooke (Chairman)	18 June 2008
Campbell Corfe	2 June 2009

Previous Committee Member	Date Appointed	Date Resigned
Vince Leone	23 November 2007	2 June 2009

Remuneration Committee Meetings

There were two Remuneration Committee meetings held during the year. Please see below for details of member's attendance at meetings.

Current Committee Member	Meetings attended	Meetings held whilst a member
Terry Wills Cooke	2	2
Campbell Corfe	1	1

Previous Committee Member	Meetings attended	Meetings held whilst a member
Vince Leone	1	1

Risk Management Committee

The Board established a Risk Management Committee on 12 August 2009, the members of the Risk Management Committee as at the date of this report are Matthew Costello (Chair) and Terry Wills Cooke.

Industry Committee

The Board established an Industry Committee on 12 August 2009, the members of the Industry Committee as at the date of this report are Alan Chalmers (Chair), Matthew Costello and Michael Abela.

Directors Interest in Shares

Director	Number of Ordinary Shares
Michael Abela	3,567,169
Terry Wills Cooke	2,000,000
Campbell Corfe	Nil
Matthew Costello	Nil
Alan Chalmers	Nil

DIRECTORS' REPORT (cont)

Directors Interest in Options

Director	Number of Options	Exercise Price	Expiry
Michael Abela	3,000,000	$0.013	30 June 2012
Terry Wills Cooke	1,000,000	$0.013	30 June 2012
Campbell Corfe	Nil		
Matthew Costello	Nil		
Alan Chalmers	Nil		

Flaxton Hunter Pty Ltd holds 250,000,000 fully paid ordinary shares and 250,000,000 options each exercisable over 1 fully paid ordinary share at $0.01.

Campbell Corfe, through Corfe Associates Pty Ltd, holds a 19% share in Flaxton Hunter Pty Ltd.

Corfe & Associates Pty Ltd is party to a call option deed that enables it to acquire a further 31% of Flaxton Hunter Pty Ltd, subject to obtaining Hostech shareholder approval.

Dividends

No dividends were declared, paid or recommended during the year.

Principle Activities

The principle activities of the entities within the group during the financial year were focused on the supply of telecommunications goods and services. The Company provides traditional phone installation and telephony services through its wholly owned subsidiaries Sholl Communications and AK Communications. The Company's other wholly owned subsidiary OneNetwork, provides business grade hosted Internet Protocol ("IP") telephony services. The Company provides a broad range of offering, including supply of hardware, installation, carriage, service and maintenance.

There has been no significant changes in the nature of these activities during the year.

Corporate Structure

Hostech is a company limited by shares that is incorporated and domiciled in Australia. Hostech has prepared a consolidated financial report incorporating the entities that it retained interests in during the financial year.

Employees

The consolidated entity employed 24 people as at 30 June 2009 (2008:30)

Review of Operations

A review of operations of the group is provided in the Chairman's Report.

Trading Results

The consolidated net loss attributable to Hostech Limited for the year was $7,949,328. (2008: net loss after tax of $9,732,152).

DIRECTORS' REPORT (cont)

Investments for Future Performance

After focussing on improving operations in 2008, and with the $2.5 million investment from Flaxton Hunter Pty Ltd, the Company is on track to deliver material improvement through both organic growth and cash accretive acquisitions.

Given the above and the expected profits in 09/10 to be derived from current subsidiaries, the Company will deliver a profit to its shareholders and position itself as a leader in telecommunications.

Significant Changes in the State of Affairs

Share issues during the year and up to the date of this report were as follows:

Date	Number of Shares Issued	Event
4 March 2009	20,000,000	Private Placement
5 May 2009	3,750,000	Issue of Shares upon exercise of Options
2 June 2009	250,000,000	Private Placement

Likely Developments and Expected Results of Operation

The Company will pursue its operating strategy to create shareholder wealth. The directors are determined to add scale to the business to deliver sustainable profitability. The Company intends to complete acquisitions in the telecommunications industry during the 2010 financial year.

Significant Events After Balance Date

In July 09, the Parent issued 500,000 convertible notes to Flaxton Hunter Pty Ltd, pursuant to the Subscription Agreement between the two parties, to raise a further $500,000 at $1.00 convertible at $0.02.

In July 09, the Parent entered into a terms sheet for a major acquisition. Initial due diligence has been completed with the Board satisfied that this acquisition will have the ability to deliver both profitability and strong strategic growth to the business.

No other matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Environmental Regulation

The consolidated entity's operations are not subject to any significant environmental Commonwealth or State regulations or laws.

Indemnification and Insurance of Directors and Officers

The Company has, during the financial year, in respect of any person who has, is or has been an officer of the Company or a related body corporate paid a premium in respect of directors and officers liability insurance which indemnifies the directors, officers and the Company of any claims made against the directors and officers of the Company and the Company, subject to conditions contained in the insurance policy. Further disclosures required under Section 300(9) of the Corporations Act 2001 are prohibited under the terms of the contract.

Auditor's Independence and Non-Audit Services

There were no non-audit services provided by the auditors of the Company (Ernst & Young) during the financial year. The directors have received the Declaration of Independence from the auditors of Hostech Limited. Please refer to page 13.

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Auditor's Independence Declaration to the Directors of Hostech Limited

In relation to our audit of the financial report of Hostech Limited for the financial year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

June Wilson
Partner
31 August 2009

REMUNERATION REPORT (audited)

This report outlines the remuneration arrangements in place for directors and executives of Hostech Limited and the group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the parent and the group receiving the highest remuneration.

For the purpose of this report, the term ‘executive’ encompasses the Chief Executive, senior executives, general managers and secretaries of the parent and the group.

Details of Key Management Personnel

Directors

Campbell Corfe –Executive Chairman (appointed Executive Director 2nd June 2009, appointed Executive Chairman 29 June 2009)

Terry Wills Cooke – Non Executive Director (resigned Chairman 29 June 2009, appointed Non-Executive Director 29 June 2009)

Michael Abela – Chief Executive & Director

Matthew Costello – Non-Executive Director (appointed 2 June 2009)

Alan Chalmers – Non-Executive Director (appointed 29 June 2009)

Previous Directors

Vince Leone – Non-Executive Director (resigned 2 June 2009)

Damian Woods – Non-Executive Director (resigned 2 June 2009)

Executives

Malcolm Lewis – General Manager of Sholl Communications

Andrew Bauer – General Manager of AK Communications (resigned 15 July 2009)

Trevor Kelly – Chief Operations Officer (employment ceased 30 June 2009)

Veronica Duff – Financial Controller

Justyn Stedwell – Company Secretary

Other than the resignation of Andrew Bauer, there were no other changes of the CEO or KMP after reporting date and before the date the financial report was authorised for issue.

REMUNERATION REPORT (audited) (cont)

Remuneration Philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Provide rewards packages that are attractive to high calibre executives who understand the current start-up nature of the company; and
- Link executive rewards to shareholder value.

Remuneration Committee

The Remuneration Committee of the Company is responsible for determining and reviewing remuneration arrangements for the directors, CEO and the senior management team.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions, the current financial state of the Company with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive Director and executive remuneration is separate and distinct.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of the non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the non-executive directors as agreed. The latest determination was at the Annual General Meeting held on 28 November 2005 when shareholders approved an aggregate amount payable to non-executive directors to not exceed $200,000 per year. Based on the current situation of the Company the remuneration committee believes this level of remuneration to be appropriate.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned is reviewed annually. The Board considers advice from external sources as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. Presently there are no additional fees paid to director's for each committee and/or sub committee.

Non-executive directors are actively encouraged by the Board to hold shares in the Company (purchased by the director on market). It is considered good governance for directors to have a stake in the Company.

The remuneration of non-executive directors for the period ending 30 June 2009 and 30 June 2008 is detailed in this report.

Executive Remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and the responsibilities within the Company so as to:

- Reward executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of the executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, consideration is given to the current size and financial position of the Company.

In the 2009 financial year, remuneration consisted only of fixed remuneration. Fixed remuneration consists of salary and fees, superannuation and share options. The Company intends to implement a new employee and executive share option plan whereby options granted will vest in accordance with the achievement of specific performance targets. It is Company policy that any bonus or incentive payments made to directors and executives are based on the achievement of set financial and/or operational performance targets.

The proportion of fixed remuneration is established for each senior manager by the Remuneration Committee. The remuneration of the most highly remunerated senior managers is detailed in this report.

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the Company's stage of development, to the position and is competitive in the market.

REMUNERATION REPORT (audited) (cont)

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of Company wide, and individual performance, the Company's stage of development, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Structure

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash, shares and options. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

The fixed remuneration component of the most highly remunerated executives is detailed in the table below.

Details of Remuneration

The Board is responsible for making recommendations on remuneration packages and policies applicable to the Board members and senior executives of the Company. The board remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the named executive officers of the Company are detailed in the tables below.

Remuneration of Key Management Personnel

Table 1. Remuneration for the year ended 30 June 2009

	Short-term benefits		Post-employment benefits	Equity-based payments		
Non-Executive Director	**Salary and Fees ($)**	**Other ($)**	**Superannuation ($)**	**Options Issued ($)**	**Shares Issued ($)**	**Total ($)**
Terry Wills Cooke	53,115	-	2,751	1,700	-	57,566
Vince Leone	27,400	-	2,466	-	-	29,866
Damian Woods	11,400	-	1,026	-	-	12,426
Campbell Corfe	-	-	-	-	-	-
Matthew Costello	-	-	-	-	-	-
Alan Chalmers	-	-	-	-	-	-
Sub-total non-executive directors	**91,915**	**-**	**6,243**	**1,700**	**-**	**99,858**
Executive Director						
Michael Abela	224,950	-	14,849	5,100	-	244,899
Damian Woods	89,249	-	4,200	1,700	-	95,149
Other KMP						
Malcolm Lewis	142,421	-	11,806	1,500	-	155,727
Trevor Kelly	127,278	-	7,301	1,500	-	136,079
Veronica Duff	112,180	-	10,096	1,500	-	123,776
Andrew Bauer	51,230	-	-	-	-	51,230
Justyn Stedwell	35,000	-	3,150	750	-	38,900
Sub-total executive KMP	**782,308**	-	**51,402**	**12,050**	-	**845,760**
Total	**874,223**	**-**	**57,645**	**13,750**	**-**	**945,618**

REMUNERATION REPORT (audited) (cont)

Table 2. Remuneration for the year ended 30 June 2008

	Short-term benefits		Post-employment benefits	Equity-based payments		
Non-Executive Director	**Salary and Fees ($)**	**Other ($)**	**Superannuation ($)**	**Options Issued ($)**	**Shares Issued ($)**	**Total ($)**
Terry Wills Cooke	3,000	-	-	-	-	3,000
Vince Leone	12,000	-	4,320	15,379	-	31,699
Nicholas Pike	48,000	-	-	15,379	-	63,379
Sub-total non-executive directors	**63,000**	**-**	**4,320**	**30,758**	**-**	**98,078**
Executive Director						
Michael Abela	216,081	-	18,519	-	-	234,600
Damian Woods	114,872	-	10,339	-	-	125,211
Vince Leone	228,000	-	21,600	-	-	249,600
Fabio Pannuti	248,121	-	-	-	-	248,121
Garry Sholl	194,454	-	2,160	-	-	196,614
Other KMP						
Malcolm Lewis	121,049	-	14,606	-	-	135,655
Veronica Duff	69,121	-	6,220	-	-	75,341
Andrew Bauer	24,450	-	-	-	-	24,250
Justyn Stedwell	41,776	-	3,759	25,719	-	71,254
Sub-total executive KMP	1,257,924	-	77,203	25,719	-	1,360,846
Total	**1,320,924**	**-**	**81,523**	**56,477**	**-**	**1,458,924**

Options Granted as Remuneration

Details of options issued to directors and key executives during the year ended 30 June 2009 are set out below:

Name	Granted	Grant date	Fair value of options at grant date ($)	Exercise Price	Expiry Date
Michael Abela	3,000,000	21/11/08	5,100	0.13	31/12/11
Terry Wills Cooke	1,000,000	21/11/08	1,700	0.13	31/12/11
Malcolm Lewis	1,000,000	06/02/09	1,500	0.13	31/12/11
Veronica Duff	1,000,000	06/02/09	1,500	0.13	31/12/11
Justyn Stedwell	500,000	06/02/09	750	0.13	31/12/11
Trevor Kelly	1,000,000	06/002/09	1,500	0.13	31/12/11
Damian Woods(i)	1,000,000	21/11/08	1,700	0.13	31/12/11
Total	**8,500,000**		**13,750**		

During the 08/09 financial year, 5 million options were issued to Directors and 2.5 million options were issued to key executives.

These options will vest when the share price reaches a certain level determined by the Board. No expense in relation to the issue of these share options has been recognised in the accounts as at 30 June 09.

(i) Damian Wood's options granted as remuneration, lapsed on 2 June 2009 due to his resignation as Non-Executive Director.

No options were exercised during the 2009 financial year.

REMUNERATION REPORT (audited) (cont)

No options have vested during the 2009 financial year.

All options granted as remuneration in the 2008 financial year lapsed.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were no forfeitures during the period.

Details of options issued to directors and key executives during the year ended 30 June 2008 are set out below:

Name	Granted	Vested	Grant date	Fair value of options at grant date ($)	% of annual remuneration	Exercise Price	Expiry Date
Vince Leone	1,000,000	1,000,000	13/9/07	15,379	3.71%	0.25	31/12/08
Nicholas Pike	1,000,000	1,000,000	13/9/07	15,379	17.6%	0.25	31/12/08
Garry Sholl	1,000,000	1,000,000	13/9/07	-	4.96%	0.25	31/12/08
Justyn Stedwell	1,700,000	1,700,000	5/10/07	25,719	27.75%	0.25	31/12/08

Loans to Directors

There were no loans made to a director during the financial year.

Group Performance

The last 5 years has seen many changes within the Hostech Group. The companies it has invested in and subsequently divested did not perform to expectation causing a necessity to refocus and recapitalise the company. The Company's new strategy has culminated in its rebirth as Hostech with a vision of being a leading provider of business telephony in Australia.

Over the last two years, important strides have been taken to prepare the Company to build scale and profitability. Whilst performance has not been at desired levels, important building blocks have been laid to deliver against strategy. A recent investment in the Company by Flaxton Hunter Pty Ltd and subsequent acquisitions are critical catalysts toward profitability and growth.

REMUNERATION REPORT (audited) (cont)

Employment Contracts

Chief Executive

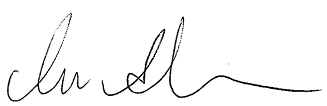
On 1st June 2009, the CEO, Mr. Michael Abela, signed a new employment contract that will continue until 30 June 2010 and will continue after this Term on an ongoing basis unless, at least three months before the end of the Term, Hostech advises Mr. Abela in writing that his employment will not continue beyond the Term. The current employment contract ("the contract") commenced on 1 June 2009. Under the terms of the contract:

- Mr. Abela receives fixed remuneration of $288,850 per annum inclusive of superannuation and allowances.
- Mr. Abela may be entitled to Operational Incentives as determined by the Board upon achievement of mutually agreeable performance targets and key performance indicators. The Operational Incentives will comprise of cash.
- Mr. Abela may be entitled to Share Value Incentives as determined by the Board upon achievement of mutually agreeable performance targets and key performance indicators. The Share Value Incentive can be taken in either cash or as shares, subject to any Regulatory consent and shareholder approvals.
- Mr. Abela may resign from his position and thus terminate the contract by giving three months notice to the Company.
- The Company may at any time terminate the contract by giving Mr. Abela three months notice in writing, or payment of salary in lieu of such notice.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where gross misconduct has occurred Mr. Abela is not entitled to any payment other than accrued salary and accrued leave (if any).

Other Executives

All other executives have standard rolling contracts. The executive may at any time terminate the contract by giving one month notice to the Company. The Company may terminate the contract at any time, without having or giving any reason, upon giving the executive one or three months notice in writing, or payment of salary in lieu of such notice. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is not entitled to any payment other than accrued salary and accrued leave (if any).

Signed in accordance with a resolution of the directors.



Michael Abela

Chief Executive & Director

Corporate Governance Statement

The Board of Directors of Hostech Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business affairs of Hostech Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Corporate Governance Statement is structured with reference to the Australian Securities Exchange Corporate Governance Council's ("the Council's") "Principles of Good Corporate Governance and Best Practice Recommendations" ("the Recommendations").

The recommendations are not prescriptions, they are guidelines. The Council recognise that the range in size and diversity of companies is significant and that smaller companies from the outset may face particular issues in following all Recommendations. If a company considers that a recommendation is inappropriate to its particular circumstances, it has the flexibility not to adopt it.

The Board of Directors has adopted the best practice recommendations as outlined by the Council to the extent that is deemed appropriate for the size and operations of Hostech Limited. Therefore, where the Board considers that the cost of implementing a recommendation outweighs any potential benefits, those recommendations have not been adopted.

Principle 1 - Lay solid foundations for management and oversight

Functions of the Board and Management

The Board is ultimately responsible for all matters relating to the running of the Company.

The main task of the Board is to drive the performance of the Company.

The Board's role is to govern the Company rather than to manage it. In governing the Company, the directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board; the Board will oversee the activities of management in carrying out these delegated duties.

The Board has the final responsibility for the successful operations of the Company. Successful operations will usually be manifest by achieving optimum shareholder value. The Board is responsible for articulating the following:

- The objectives and strategic direction of the Company;
- The values of the Company, including how it will treat with all stakeholders;

Without intending to limit this general role of the Board, the principle functions and responsibilities of the Board will include the following:

1. Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company;
2. Strategy Formulation: to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company;
3. Overseeing Planning Activities: the development of the Company's strategic plan;

4. Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy;
5. Company Finances: ensuring there are adequate resources provided to achieve the objectives;
6. Human Resources: establishing appropriate human resource policies and ensuring there are adequate human resources for the Company to be successful;
7. Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees;
8. Delegation of Authority: delegating appropriate powers to the CEO and the senior management team to ensure the effective day-to-day management of the Company; and
9. Ensuring there is appropriate Corporate Governance.

Evaluating the Performance of Senior Executives

The Board considers the ongoing development and improvement of the performance of senior executives as a critical input to effective governance. Senior executives are encouraged to participate in continuing education programs that will update their skills and knowledge of key developments within the industry in which the Company operates, and regulatory and legislative changes that impact on reporting responsibilities.

On an annual basis, the Board conducts a formal performance review of the Chief Executive Officer and other key management personnel (KMP). The Board assesses the performance of KMP against qualitative and quantitative key performance indicators relevant to each KMP. Feedback on the performance of each KMP is provided and a plan is established to encourage, improve and monitor future performance. A performance review of KMP occurred during the 2009 financial year in accordance with this process.

<u>Principle 2 - Structure the Board to add value</u>

Structure of the Board

The skills, experience, expertise and period of office of each director in office throughout the year are included in the Directors' Report. The Board is currently composed of two executive directors, Campbell Corfe and Michael Abela, and three non-executive directors, Terry Wills Cooke, Matthew Costello and Alan Chalmers.

The Board assesses whether a director is independent in accordance with the Council's independence guidelines. In considering a director's independence the Board has set the materiality thresholds of professional advisors and suppliers at 1% of the Company's total expenditure for the financial year. Mathew Costello is a non-executive director and provides management consulting services to the Company, however, for the purposes of determining his independence he is not considered a material professional advisor or a material consultant.

In accordance with the Recommendations the Board now comprises of a majority of independent directors. Terry Wills Cooke, Matthew Costello and Alan Chalmers are considered independent directors. None of these directors are considered to have a material relationship with the Company or another group member during the financial year as professional advisor, consultant, supplier, customer, nor did they have any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The Board did not comprise of a majority of independent directors up to June 2, 2009. Given the size and financial position of the Company's prior to June 2, 2009 it was not considered appropriate to appoint additional independent directors. The Board considered the presence of an independent chairman as sufficient.

The Board was chaired by independent director Terry Wills Cooke throughout the 2009 financial year until 29 June 2009. The Board is now chaired by Campbell Corfe who is not an independent director. The Board considers Mr. Corfe's significant experience and expertise as integral to the role of chairman. As the Board consists of a majority of independent directors the Board believes that there is sufficient independent presence on the Board and as such does not consider it necessary to have an independent chairman at this time.

The role of the Chairperson and Chief Executive Officer are not exercised by the same individual, this ensures a balance of authority so that no single individual has unfettered powers.

The Board is responsible for the nomination and selection of directors. Given the size of the Company and the nature of its operations, the Board does not believe it to be appropriate to establish a nomination committee at this time.

Directors are appointed based on the specific skills required to effectively govern the Company. The Company aims at all times to have at least two directors with appropriate experience within the telecommunications and technology industries. In addition, directors should have the relevant blend of experience in:

- accounting and financial management; and
- director level business management and governance.

Board Performance

The Board considers the ongoing development and improvement of its own performance, the performance of individual directors and Board Committees as critical to effective governance. Directors are encouraged to participate in continuing education programs that will update their skills and knowledge of key developments within the industry in which the Company operates, and regulatory and legislative changes that impact on reporting responsibilities.

The performance of the Board, Board Committees and individual directors is reviewed at least every three years by the Board as a whole. The reviews are based on a number of predetermined performance objectives. The criteria for evaluating performance, is aligned with the financial and non-financial objectives of the Company. The Board will consider the outcome of each review and develop a series of actions to guide improvement.

When evaluating the performance of individual directors, the Chairman will provide each director with confidential feedback on his or her performance. This feedback will be used to develop a plan and a basis for future performance assessment for each director. An independent director will provide confidential feedback to the Chairman on his own performance. The Board does not endorse the reappointment of a director who is not satisfactorily performing the role. Directors whose performance is unsatisfactory may be asked to retire. A performance review in accordance with the processes disclosed did not occur during the 2009 financial year, however, the Board intends to complete a review in accordance with the process disclosed during 2010.

Independent professional advice

The Board collectively and each individual director has the right to seek independent professional advice at the Company's expense, up to a specified limit of $5,000 unless otherwise agreed by the Chairman, to assist them to carry out their responsibilities.

Commitments

Each member of the board is committed to spending sufficient time on Company matters to enable them to effectively carry out their duties as a Director of the Company. Other commitments of non-executive directors which may affect their contribution to the Company are considered prior to a director's appointment to the Board and are reviewed each year. Prior to appointment or re-election, each director must acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

The Board holds at least 12 scheduled meetings each year. For details of the number of Board meetings held throughout the year and the number of meetings attended by each director refer to the Directors' Report.

Principle 3 – Promote ethical and responsible decision making

Corporate Code of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Corporate Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. The Corporate Code of Conduct can be viewed at the Company's website, www.hostech.com.au.

Directors & Officers Code of Conduct, & Employee Code of Conduct

The Board has established the Directors and Officers Code of Conduct, and the Employee code of conduct to guide directors, officers and employees as to:

- the practices necessary to maintain confidence in the Company's integrity; and
- the practices necessary to take into account their ethical and legal obligations and the reasonable expectations of the Company's stakeholders.

The Directors and Officers Code of Conduct, and the Employee Code of Conduct can be viewed at the Company's website, www.hostech.com.au.

Share Trading Policy

The Hostech Limited Share Trading Policy ("the Policy") regulates the sale and purchase of shares in the Company by its directors, officers and employees.

The purpose of the Policy is to reduce the risk of insider trading and ensure that the Company's directors, officers and employees are aware of the legal restrictions on trading shares in the Company whilst in possession of inside information concerning the Company.

In addition the Policy sets out when trading in the Company's shares by directors, officers and employees is not permitted. Restrictions on trading are imposed by the Company to reduce the risk of insider trading and to minimise the chance that misunderstandings or suspicions arise that the Company's directors, officers, or employees are trading while in possession of Inside Information.

Consistent with the insider trading provisions of the Corporations Act, all of the Company's directors, officers and employees are prohibited from trading in the Company's shares while in possession of Inside Information concerning the Company.

Directors, officers and employees should never communicate any Inside Information to any other person, including family members and associates.

In addition directors, officers and employees are prohibited from trading in the Company's shares during:

- each period of 30 days immediately prior to the date upon which the Company releases its annual financial statements to the ASX;
- each period of 30 days immediately prior to the date upon which the Company releases its half year financial statements to the ASX;
- each period of 30 days immediately prior to the date upon which the Company holds its annual general meeting; and
- each period of 24 hours immediately after the date upon which the Company issues a price-sensitive ASX announcement.

No director, officer or employee may deal in Company shares at any time for short term gain, including buying and selling Company shares in a 3 month period, without the written approval of the Chairman or in the case of the Chairman the Chief Executive Officer.

The Hostech Limited Share Trading Policy can be viewed at the Company's website, www.hostech.com.au.

Reporting Unethical or Illegal Practices

Company policy requires employees who are aware of unethical or illegal practices to report these practices to management. Any reports of unethical or illegal practices are investigated by management or the Board. Reporters of unethical practices may remain anonymous.

Principle 4 – Safeguard integrity in financial reporting

Audit Committee

The Audit Committee was established to ensure oversight by the Board of Directors of all matters related to the financial accounting and reporting of the Company. The Audit Committee monitors the processes, which are undertaken by management and auditors. The Audit Committee ensures that the Board, as the representative of the shareholders, meets all financial corporate governance requirements.

Throughout the financial year there were two members on the Audit Committee being Terry Wills Cooke (Chair) and Michael Abela. Terry Wills Cooke is an independent director and was also Chairman of the Board (until 29 June 2009). As Mr. Wills Cooke was the only independent director on the Board throughout the majority of the financial year it was considered appropriate that he chair the Audit Committee. Given the size of the board during the financial year board committees consisting of two members were considered to be appropriate. The Board considered the presence of one independent director as sufficient.

For details on the number of Audit Committee meetings held during the year and the attendees at those meeting's, refer to the Directors' Report.

The Audit Committee has adopted a formal charter which clearly sets out the committee's role and responsibilities, composition and structure. The Audit Committee charter can be viewed on the Company's website, www.hostech.com.au.

Principle 5: Make timely and balanced disclosure

Continuous Disclosure

The Company has a Disclosure Policy to ensure compliance with the ASX Listing Rules disclosure requirements. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would likely to, influence persons who commonly invest in securities;

The Company is committed to ensuring all investors have equal and timely access to material information concerning the Company.

The Board has designated the Company Secretary as the person responsible for communicating with the ASX. The Company Secretary is responsible for ensuring that Company announcements are made in a timely manner, that announcements are factual and do not omit any material information required to be disclosed under the ASX Listing Rules.

The Company Secretary and the Chief Executive Officer ensure that Company announcements are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

All information posted on the ASX can be immediately viewed via a link on the Company's website, www.hostech.com.au.

The Hostech Disclosure Policy can be viewed at the Company's website, www.hostech.com.au.

Principle 6: Respect the rights of Shareholders

Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, the company website, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals; and
- making it easy for shareholders to participate in general meetings of the Company.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company. These contact details are available on the "contact us" page of the Company's website, www.hostech.com.au.

The Company views the annual general meeting as an opportunity for shareholders to meet with and ask questions of the Board. Accordingly all shareholders are given the opportunity to ask questions. The Company's external auditor's are in attendance at the annual general meetings. All shareholders are given the opportunity to ask the company's external auditors questions about the conduct of the audit and the preparation and content of the auditor's report.

The Hostech Disclosure Policy promotes effective communication with shareholders; the policy can be viewed at the Company's website, www.hostech.com.au.

Principle 7: Recognise and manage risk

Risk Management

Risk management is considered a key governance and management process. The Board ultimately determines the Company's risk profile and is responsible for approving and overseeing the Company's risk management policy and internal compliance and control systems.

The Company has established and implemented a system for identifying, assessing, monitoring and managing material risk throughout the organisation. The risk management system is implemented by senior management and is designed to ensure:

- all major sources of potential opportunity for and harm to the company (both existing and potential) are identified, analysed and treated appropriately;

- business decisions throughout the Company appropriately balance the risk and reward trade off;
- regulatory compliance and integrity in reporting is achieved; and
- the Company's continued good standing with its stakeholders.

The risk management system involves a multi-stage process of risk identification, analysis, evaluation, strategy development, strategy implementation, monitoring and review.

Management reports to the Board on the effectiveness of the Company's management of its material business risks. In addition, the Board undertakes a review of all major activities to asses risk and the effectiveness of strategies implemented to manage risk.

On August 12 2009 the Board established a Risk Management Committee. The Risk Management Committee charter can be viewed on the Company's website, www.hostech.com.au.

Chief Executive Officer & Financial Controller Certifications

The Chief Executive Officer and the Financial Controller have provided a written statement to the Board that:

- the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results are in accordance with relevant accounting standards; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Principle 8: Remunerate fairly and responsibly

Remuneration

The Company remunerates directors and key executives fairly and appropriately with reference to the skills and experience of the director/executive and employment market conditions. Any bonus or incentive payments made to directors and executives are based on the achievement of set financial and/or operational performance targets. Payment of equity-based remuneration is made in accordance with thresholds set in plans approved by shareholders.

There is no scheme to provide retirement benefits other than statutory superannuation to non-executive directors.

For details of the amount of remuneration, and all monetary and non-monetary components, for each of the five highest-paid executives during the year and for all directors, refer to the Directors' Report.

Remuneration Committee

The Board has established a Remuneration Committee. Terry Wills Cooke and Campbell Corfe are the members of the Remuneration Committee. Terry Wills Cooke chairs the Remuneration Committee and is an independent director. Given the size of the Company and nature of its operations the Board considers that a Remuneration Committee comprising of two members, one of whom is independent (and Chair) is appropriate and provides sufficient independent presence. The Committee meets at least twice annually and is responsible for:

- formulating guidelines as to what constitutes appropriate “human resource” policy for the Company; including but not limited to, base pay, incentive schemes; retention and termination policies, succession planning and human resource development;
- providing an assessment of market expectations relative to senior executives and Board members remunerations commensurate with their responsibilities;
- making a determination of the appropriate “tiers” of personnel; including who constitutes the “senior management” team;
- specific employment agreements, including roles and responsibilities, and levels of remuneration, for the senior management team;
- an employment agreement, including role and responsibilities, and level of remuneration, for the CEO;
- management agreements for executive and non-executive Directors;
- provide results of periodic audits of the human resource policies; and
- the establishment of a performance review process; including performance reviews of at least the CEO and members of the Board.

For details on the number of Remuneration Committee meetings held during the year and the attendees at those meeting’s, refer to the Directors’ Report.

The Remuneration Committee Charter can be viewed at the Company’s website, www.hostech.com.au.

INCOME STATEMENT

For the year ended 30 June 2009

	Note	Consolidated		Parent	
		2009	2008	2009	2008
		$	$	$	$
Continuing operations					
Sale of goods		3,552,581	3,335,128	-	-
Rendering of services		1,708,211	1,079,566	-	-
Finance revenue		22,928	86,304	19,978	85,172
Other income	6	24,775	68,098	19,275	1,792
Revenue		5,308,495	4,569,096	39,253	86,964
Cost of sales	7(a)	(3,217,028)	(2,514,362)	-	-
Gross Profit		2,091,467	2,054,734	39,253	86,964
Administrative Expenses	7(b)	(151,055)	(4,087,528)	(6,262)	(4,507)
Goodwill Impairment	7(c)	(6,315,241)	(1,023,380)	-	-
Employee expenses	7(d)	(2,418,863)	(2,868,818)	(674,576)	(1,068,314)
Consulting fees	7(e)	(158,738)	(853,127)	(107,508)	(835,490)
Legal and other professional fees	7(f)	(194,142)	(388,820)	(185,561)	(398,017)
Occupancy expenses	7(g)	(291,114)	(259,023)	(247,519)	(40,038)
Provision for diminution of investment		-	-	(6,315,241)	(6,576,061)
Finance costs	7(h)	(36,285)	(235,587)	(23,149)	(223,600)
Other expenses	7(i)	(907,681)	(1,397,892)	(113,801)	(1,058,860)
Loss from continuing operations before income tax		**(8,381,652)**	**(9,059,441)**	**(7,634,364)**	**(10,117,923)**
Income tax credit	8(a)	354,287	497,643	324,977	-
Loss from continuing operations after income tax		**(8,027,365)**	**(8,561,798)**	**(7,309,387)**	**(10,117,923)**
Discontinued operations					
Profit / (loss) from discontinued operations after income tax	28	78,037	(1,170,354)	78,037	-
Net loss attributable to members of Hostech Limited		**(7,949,328)**	**(9,732,152)**	**(7,231,350)**	**(10,117,923)**
Loss per share (cents) from continuing operations:					
Basic loss per share	**9(b)**	(3.24)	(5.02)		
Diluted loss per share	**9(b)**	(3.24)	(5.02)		
Loss per share (cents per share):					
Basic loss per share	**9(b)**	(3.24)	(5.71)		
Diluted loss per share	**9(b)**	(3.24)	(5.71)		

The above income statement should be read with the accompanying notes.

BALANCE SHEET

As at 30 June 2009

	Note	Consolidated		Parent	
		2009	2008	2009	2008
		$	$	$	$
ASSETS					
Current Assets					
Cash and cash equivalents	10	1,900,368	1,039,876	1,746,810	828,962
Trade and other receivables	11	582,916	742,282	7,500	1,971
Inventories		-	38,133	-	-
Loans to controlled entities	11	-	-	1,078,017	531,304
		2,483,284	1,820,291	2,832,327	1,362,237
Assets of disposal group classified as held for sale	28	-	232,996	-	-
Total current assets		2,483,284	2,053,287	2,832,327	1,362,237
Non-current Assets					
Investments in subsidiaries	12	-	-	4,289,814	10,605,055
Property, plant and equipment	13	235,813	377,208	58,308	64,569
Intangible assets and goodwill	14	4,815,601	11,130,842	-	-
Total non-current assets		5,051,414	11,508,050	4,348,122	10,669,624
TOTAL ASSETS		7,534,698	13,561,337	7,180,449	12,031,861
LIABILITIES					
Current Liabilities					
Trade and other payables	15	989,028	1,368,212	371,542	421,485
Convertible notes	19	104,985	340,365	104,985	340,365
Interest bearing loans and borrowings	18	41,410	61,596	-	-
Provisions	16	131,029	166,436	46,158	21,603
		1,266,452	1,936,609	522,685	783,453
Liabilities directly associated with the assets classified as held for sale	28	-	11,032	-	-
Total Current Liabilities		1,266,452	1,947,641	522,685	783,453
Non-current Liabilities					
Interest bearing loans and borrowings	18	83,982	111,138	-	-
Provisions	17	8,993	16,926	2,229	490
Total Non-current Liabilities		92,975	128,064	2,229	490
TOTAL LIABILITIES		1,359,427	2,075,705	524,914	783,943
NET ASSETS		**6,175,271**	**11,485,632**	**6,655,535**	**11,247,918**
EQUITY					
Contributed equity	19	31,191,109	28,543,859	67,298,110	64,650,860
Convertible notes	19	5,015	13,298	5,015	13,298
Reserves	21b	-	387,062	-	397,062
Accumulated losses	21a	(25,020,853)	(17,458,587)	(60,647,590)	(53,813,302)
TOTAL EQUITY		**6,175,271**	**11,485,632**	**6,655,535**	**11,247,918**

The above balance sheet should be read with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 09

Consolidated	Issued Capital $	Convertible Notes $	Other Reserves $	Accumulated Losses $	Total Equity $
As at 1 July 2007	**12,116,473**	**25,312**	**183,928**	**(7,726,435)**	**4,599,278**
Loss for the year	-	-	-	(9,732,152)	(9,732,152)
Issue of share capital – Sholl acquisition	3,750,000	-	-	-	3,750,000
Issue of share capital – OneNetwork acquisition	4,165,000	-	-	-	4,165,000
Issue of share capital – AK Communications acquisition	1,370,000	-	-	-	1,370,000
Issue of share capital	7,427,031	-	-	-	7,427,031
Share issue costs	(284,645)	-	-	-	(284,645)
Cost of options issued on acquisition of Sholl and OneNetwork	-	-	120,940	-	120,940
Share based payments	-	-	82,194	-	82,194
Issue of convertible notes	-	38,406	-	-	38,406
Convertible note issue costs	-	(1,024)	-	-	(1,024)
Convertible notes redeemed or converted	**-**	(49,396)	-	**-**	(49,396)
As at 30 June 2008	**28,543,859**	**13,298**	**387,062**	**(17,458,587)**	**11,485,632**
As at 1 July 2008	**28,543,859**	**13,298**	**387,062**	**(17,458,587)**	**11,485,632**
Loss for the year				(7,949,328)	**(7,949,328)**
Issue of share capital	2,737,500	-	-	-	**2,737,500**
Share issue costs	(90,250)	-	-	-	**(90,250)**
Expired Share Options	-	-	(387,062)	387,062	**-**
Convertible notes redeemed or converted	-	(8,283)	-	-	**(8,283)**
As at 30 June 2009	**31,191,109**	**5,015**	**-**	**(25,020,853)**	**6,175,271**

The above statement of recognised income and expense should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY (cont)

For the year ended 30 June 09

Parent	Issued Capital $	Convertible Notes $	Other Reserves $	Accumulated Losses $	Total Equity $
As at 1 July 2007	**48,223,474**	**25,312**	**193,928**	**(43,695,379)**	**4,747,335**
Loss for the year	-	-	-	(10,117,923)	(10,117,923)
Issue of share capital – Sholl acquisition	3,750,000	-	-	-	3,750,000
Issue of share capital – OneNetwork acquisition	4,165,000	-	-	-	4,165,000
Issue of share capital – AK Communications acquisition	1,370,000	-	-	-	1,370,000
Issue of share capital	7,427,031	-	-	-	7,427,031
Share issue costs	(284,645)	-	-	-	(284,645)
Share based payments	-	-	82,194	-	82,194
Value of options issued on acquisition	-	-	120,940	-	120,940
Issue of convertible notes	-	38,406	-	-	38,406
Convertible note issue costs	-	(1,024)	-	-	(1,024)
Convertible notes redeemed or converted	-	(49,396)	-	-	(49,396)
As at 30 June 2008	**64,650,860**	**13,298**	**397,062**	**(53,813,302)**	**11,247,918**
As at 1 July 2008	**64,650,860**	**13,298**	**397,062**	**(53,813,302)**	**11,247,918**
Loss for the year				(7,231,350)	**(7,231,350)**
Issue of share capital	2,737,500	-	-	-	**2,737,500**
Share issue costs	(90,250)	-	-	-	**(90,250)**
Expired Share Options	-	-	(397,062)	397,062	**-**
Convertible notes redeemed or converted	-	(8,283)	-	-	**(8,283)**
As at 30 June 2009	**67,298,110**	**5,015**	**-**	**60,647,590**	**6,655,535**

The above statement of statement of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

For the year ended 30 June 2009

	Note	Consolidated		Parent	
		2009	2008	2009	2008
		$	$	$	$
Cash flows from operating activities					
Receipts from customers		6,171,793	4,544,378	1,971	-
Interest received		20,750	86,304	19,978	85,172
Income tax credits		354,287	497,643	324,977	-
Payments to suppliers and employees		(7,893,640)	(8,633,642)	(1,303,039)	(4,078,112)
Net cash flows from/(used in) operating Activities		(1,346,810)	(3,505,317)	(956,113)	(3,992,940)
Cash flows from investing activities					
Proceeds from other current assets		100,000	-	100,000	-
Loans to controlled entities		(18,500)		(531,841)	
Purchase of other current assets			-	-	-
Payments for property, plant & equipment			(225,700)	-	(72,120)
Payments for intellectual property			(160,000)	-	-
Payment for subsidiary, net of cash acquired			(1,206,363)	-	(1,206,363)
Transfer to / refund of term deposit		(180,000)	70,566	-	-
Net cash flows from/(used in) investing Activities		(98,500)	(1,521,497)	(431,841)	(1,278,483)
Cash flows from financing activities					
Proceeds from issue of convertible notes		-	522,000	-	522,000
Proceeds from issue of shares		2,537,500	6,092,450	2,537,500	6,092,450
Payments on redemption of convertible notes		(200,000)	(375,000)	(200,000)	(375,000)
Payment of convertible note issue expense		-	(20,301)	-	(20,301)
Payment of share issue expenses		(11,000)	(284,645)	(11,000)	(284,645)
Repayment of borrowings		-	(84,804)	-	-
Interest paid on convertible notes		(20,698)	(70,755)	(20,698)	(70,755)
Net cash flows from/(used in) financing Activities		2,305,802	5,778,945	2,305,802	5,863,749
Net increase/(decrease) in cash and cash Equivalents		860,492	752,131	917,848	592,326
Cash and cash equivalents at beginning of the year		1,039,876	287,745	828,962	236,636
Cash and cash equivalents at end of the year		1,900,368	1,039,876	1,746,810	828,962

The above cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2009

1. Corporate Information

The financial report of Hostech Limited (the Company) for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 31 August 2009.

Hostech Limited (the Parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. Summary of significant accounting policies

Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards board. The financial report has also been prepared on an accrual basis of accounting including the historical cost convention and the going concern basis assumption. The financial report has been prepared on the basis that Hostech Limited is a going concern, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As at 31 December 08, there was uncertainty around going concern in the event the Group's forecasts were not achieved and/or the proposed investment did not proceed. However, on 13 March 2009, the Parent, entered into a share subscription agreement with Flaxton Hunter Pty Ltd. Under the terms of this agreement Flaxton Hunter Pty Ltd subscribed for 250 million shares in Hostech at $0.01 per share. The result of this subscription was that Flaxton Hunter Pty Ltd fulfilled their requirements of the investment. Furthermore, subsequent to 30 June 09, a Convertible Note of $500k at $1.00 was issued to Flaxton Hunter Pty Ltd, providing a further source of funding.

Given the above, and based on current cash and the current net asset position of the Group, the directors believe that the Company is a going concern and the accounts have been prepared on this basis.

Compliance with IFRS and other authoritative pronouncements of the Australian Accounting Standards Board

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(a) New accounting standards and interpretations

The applicable Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and which have not been adopted by the Group for the annual reporting period ended 30 June 2009 are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New Standard replacing AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements, although it may indirectly impact the level at which goodwill is tested for impairment. In addition, the amendments may have an impact on the Group's segment disclosures.	1 July 2009
AASB 1039 (revised)	Concise Reporting	AASB 1039 was revised in August 2008 to achieve consistency with AASB 8 *Operating Segments*. The revisions include changes to terminology and descriptions to ensure consistency with the revised AASB 101 *Presentation of Financial Statements*.	1 January 2009	AASB 1039 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements.	1 July 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 101 (Revised), AASB 2007-8 and AASB 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of "vesting conditions", introducing the term "non-vesting conditions" for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any	1 July 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 3 (Revised)	Business Combinations	The revised Standard introduces a number of changes to the accounting for business combinations, the most significant of which includes the requirement to have to expense transaction costs and a choice (for each business combination entered into) to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree’s net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group may enter into some business combinations during the next financial year. The Group has not yet determined the extent of the impact of the amendments.	1 July 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact. This was the first omnibus of amendments issued by the IASB arising from the Annual Improvements Project and it is expected that going forward, such improvements will be issued annually to remove inconsistencies and clarify wording in the standards. The AASB issued these amendments in two separate amending standards; one dealing with the accounting changes effective from 1 January 2009 and the other dealing with amendments to AASB 5, which will be applicable from 1 July 2009 [refer below AASB 2008-6].	1 January 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	This was the second omnibus of amendments issued by the IASB arising from the Annual Improvements Project. Refer to AASB 2008-5 above for more details.	1 July 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to AASB 127 deleting the “cost method” and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The main amendment of relevance to Australian entities is that made to AASB 117 by removing the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible v property, plant and equipment) needs to be determined. These amendments arise from the issuance of the IASB's *Improvements to IFRSs*. The AASB has issued the amendments to IFRS 2, IAS 38, IFRIC 9 as AASB 2009-4 (refer above).	1 January 2010	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2010
AASB 2009-Y	Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]	These comprise editorial amendments and are expected to have no major impact on the requirements of the amended pronouncements.	1 July 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Amendments to International Financial Reporting Standards***	Amendments to IFRS 2	The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular: ► the scope of AASB 2; and ► the interaction between IFRS 2 and other standards. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. A "group" has the same meaning as in IAS 27 *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries. The amendments also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions*. As a result, IFRIC 8 and IFRIC 11 have been withdrawn.	1 January 2010	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2010

Summary of significant accounting policies (continued)

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Hostech Limited and its subsidiaries ('the Group') as at 30 June each year. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Hostech Limited are accounted for at cost in the separate financial statements of the parent entity.

(c) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Hostech Limited and its Australian subsidiaries is Australian dollars ($).

(e) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

NOTES TO THE FINANCIAL STATEMENTS (cont)

Summary of significant accounting policies (continued)

(f) Trade and other receivables

Trade receivables, which generally have 7 - 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An impairment provision is made when there is objective evidence that the Group will not be able to collect the receivable. Bad debts are written off when identified.

(g) Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement and the assets and liabilities are presented separately on the face of the balance sheet.

(h) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

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

Summary of significant accounting policies (continued)

Class of Plant & Equipment

Office furniture and equipment - over 5 to 15 years
Computer equipment – over 3 years
Plant and equipment – over 15 to 20 years
Motor vehicles – over 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(a) Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability on a straight line basis.

(j) Impairment of non-financial assets other than Goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Summary of significant accounting policies (continued)

Hostech Limited conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(k) Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group’s interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated, represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. Hostech Limited performs its impairment testing using a value in use, discounted cashflow methodology for the cash generating units to which the goodwill and indefinite lived intangibles have been allocated. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO THE FINANCIAL STATEMENTS (cont)

Summary of significant accounting policies (continued)

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Research and development costs

Research costs are expensed as incurred.

(l) Trade and other payables

Trade and other payables are carried at amortised cost due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(m) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Summary of significant accounting policies (continued)

Borrowing costs are recognised as an expense when incurred.

(n) Provisions and employee benefits

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

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

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

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

(iii) Superannuation

Payments are made to employee defined contribution superannuation plans and are charged as expenses when incurred. The Group and its controlled entities have no legal obligation to cover any shortfall in the plan's obligation to provide benefits to employees on retirement.

Summary of significant accounting policies (continued)

(o) Share-based payment transaction

(i) Equity settled transactions:

The Group provides benefits in the form of share-based payments to all employees. To date however, only key management personnel of the Group have benefited from this plan. These KMP's render services in exchange for shares or rights over shares (equity-settled transactions).

There is currently one plan in place to provide these benefits:

• the Employee Share Option Plan (ESOP), which provides benefits to key management personnel.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value for the 2009 and 2008 options were determined by using the Black Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Hostech Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting date has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Summary of significant accounting policies (continued)

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 9).

(p) Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received. Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

(q) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Rendering of Services

Revenue for installation and maintenance from the Phone System and Cabling segment is recognised by reference to the stage of completion of contract or contracts in progress at balance date or at the time of completion of the contract and billing to the customer.

Revenue from the Hosted IP Telephony segment is recognised in monthly cycles. Customers are invoiced on the first day of the month for the previous months services provided.

(iii) Interest income

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

(r) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Summary of significant accounting policies (continued)

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

• when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

• when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

• when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

• when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (cont)

Summary of significant accounting policies (continued)

Tax consolidation legislation

Hostech Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2006. The head entity, Hostech Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Hostech Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Other taxes

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

• when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

• receivables and payables, which are stated with the amount of GST included.

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

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

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

(s) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

All potential ordinary shares, being options to acquire ordinary shares and convertible notes are not considered dilutive as the exercise of the options or conversion of notes would decrease the basic loss per share. Therefore, the diluted earnings per share is the same as the basic earnings per share.

(t) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to costs that it is intended to compensate. They are not credited directly to shareholders equity.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(u) Convertible notes

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of issue costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time, is recognised as a finance (interest) cost.

The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a Convertible Note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years.

The corresponding interest on convertible notes is expensed to the income statement.

Issue costs are apportioned between the liability and equity components of the convertible note based on the same allocation of proceeds to the liability and equity components when the instruments are first recognised.

3. Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, convertible notes, finance leases and cash and short-term deposits.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group mitigates the liquidity risk by obtaining additional funding from capital raising and financial support from a substantial shareholder if required to enable the Group to meet its obligations as and when it falls due. The business will be relying on positive cashflow generated through its rendering of services and sale of goods in the future years.

The contractual maturities of the Group's and parent entity's financial liabilities are:

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
6 months or less	1,140,438	1,479,808	481,542	471,485
6 – 12 months	-	250,000	-	250,000
1 – 5 years	83,982	121,138	-	10,000
Over 5 years	-	-	-	-
	1,224,420	1,850,946	481,542	731,485

Maturity analysis of financial assets and liability based on management's expectation.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations originate from the financing of motor vehicles, trade and other payables originate from the operational expenses of running a company and from the purchase of goods to be used in the supply to the Group’s customers.

3. Financial risk management objectives and policies (continued)

	≤6 months $	6-12 months $	1-5 Years $	>5 years $	Total $
Year ended 30 June 2009					
Consolidated					
Financial assets					
Cash & cash equivalents	1,900,368	-	-	-	1,900,368
Trade & other receivables	582,916	-	-	-	582,916
	2,483,284	-	-	-	2,483,284
Consolidated					
Financial liabilities					
Trade & other payables	989,028	-	-	-	989,028
Interest bearing loans & borrowings	41,410	-	83,982	-	125,392
Convertible notes	110,000	-	-	-	110,000
	1,140,438	-	83,982	-	1,224,420
Net maturity	**1,342,846**	**-**	**(83,982)**	**-**	**1,258,864**

	≤6 months $	6-12 months $	1-5 Years $	>5 years $	Total $
Year ended 30 June 2009					
Parent					
Financial assets					
Cash & cash equivalents	1,746,810	-	-	-	1,746,810
Trade & other receivables	126,194	-	-	-	126,194
	1,873,004	-	-	-	1,873,004
Parent					
Financial liabilities					
Trade & other payables	371,542	-	-	-	371,542
Convertible notes	110,000	-	-	-	110,000
	481,542	-	-	-	481,542
Net maturity	**1,391,462**	**-**	**-**	**-**	**1,391,462**

Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

The carrying amount of the convertible notes, approximate their fair value.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash at banks and short term deposits that earns floating interest rates based on the daily bank deposit rates. The carrying value of the cash at banks and short term deposits approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS (cont)

3. Financial risk management objectives and policies (continued)

For terms and conditions relating to related party receivables, refer to Note 11. Trade receivables are non-interest bearing and are generally on 7-30 days terms.

At balance sheet date, the Group had the following financial assets exposed to Australian variable interest rates :

	Consolidated 2009 $	Parent 2009 $
Cash at bank and in hand	1,897,438	1,744,810
Short term deposits	2,930	2,000
	1,900,368	1,746,810

The interest rate risks for cash at banks and short term deposits are immaterial in terms of a possible impact on profit and loss or total equity and as such sensitivity analysis has not been completed.

4. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgements

Classification of assets and liabilities as held for sale

The Group classifies assets and liabilities as held for sale when its carrying amount will be recovered through a sale transaction. The assets and liabilities must be available for immediate sale and the Group must be committed to selling the asset either through the entering into a contractual sale agreement or the activation and commitment to a program to locate a buyer and dispose of the assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS (cont)

4. Significant accounting judgements, estimates and assumptions (continued)

(ii) Significant accounting estimates and assumptions

As at 31 December 08, there was uncertainty around going concern in the event the Group's forecasts were not achieved and/or the proposed investment did not proceed. This uncertainty was outlined in the disclosures made in the half year financial report and the Auditors included a modification in their Review Report with respect to significant uncertainty – going concern. On 13 March 2009, the Parent, entered into a share subscription agreement with Flaxton Hunter Pty Ltd. Under the terms of this agreement Flaxton Hunter Pty Ltd subscribed for 250 million shares in Hostech at $0.01 per share. The result of this subscription was that Flaxton Hunter Pty Ltd had fulfilled their requirements of the investment. Furthermore, subsequent to 30 June 09, a Convertible Note of $500k at $1.00 was issued to Flaxton Hunter Pty Ltd, providing a further source of funding.

Given the above, and based on the current cash and current net asset position of the Group, the directors believe that the Company is a going concern and is able to continue its normal level of business activities and is able to pay its debts as and when they fall due.

Deferred Tax Asset

No deferred tax asset has been recognised in the accounts. The recoupment of tax losses will be subject to the satisfaction of relevant tax legislative requirements and sufficient taxable income available.

Impairment of goodwill

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill is allocated. An impairment loss of $6,315,241 was recognised in the current year in respect of goodwill. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill including a sensitivity analysis are discussed in note 14.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value for the 2009 and 2008 options was determined by using the Black Scholes model. No expense for share based payments have been recognised as at 30 June 09. Market conditions are attached to share options granted in the 2009 financial year (refer to note 20.).

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against the remaining

4. Significant accounting judgements, estimates and assumptions (continued)

useful life. Adjustments to useful lives are made when considered necessary. Depreciation charges are included in note 13.

5. Segment Information

The Group's primary segment reporting format is business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced.

The consolidated entity's operating companies are organised and managed separately according to the nature of the products and services they provide, with each segment offering different products and serving different markets.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Sales between business segments are set on an arms' length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment results include sales between business segments. These sales are eliminated on consolidation.

Business Segments

The following table presents revenue and profit information and certain asset and liability information regarding business segments for the year ended 30 June 2009 and 30 June 2008. As a result, disclosures in the consolidated financial statements and notes are representative of this segment.

5. Segment Information (continued)

	Support Costs	Hosted IP Telephony	Phone Systems & Cabling	Total
	$	$	$	$
Year ended 30 June 2009				
Revenue				
Sales to external customers	-	1,708,211	3,552,581	5,260,792
Other revenues	19,275	997	4,503	24,775
Total segment revenue	19,275	1,709,208	3,557,085	5,285,567
Finance revenue				22,928
Total consolidated revenue				5,308,495
Result				
Segment results	(1,484,633)	(1,812,583)	(5,029,364)	(8,326,580)
Loss before tax and finance costs				(8,326,580)
Finance costs				22,965
Loss before income tax				(8,303,615)
Income tax				354,287
Net loss for the year				(7,949,328)
Assets and liabilities				
Segment assets	1,812,617	2,834,724	2,887,357	7,534,698
Total assets				7,534,698
Segment liabilities	508,275	194,301	656,851	1,359,427
Total liabilities				1,359,427
Other segment information				
Other non-cash expenses				
Depreciation and amortisation	(6,262)	(90,468)	(54,325)	(151,055)
Impairment losses	-	(1,519,530)	(4,795,711)	(6,315,241)

NOTES TO THE FINANCIAL STATEMENTS (cont)

5. Segment Information (continued)

	Continuing Operations				Discontinued Operations	Total Operations
	Support Costs	Hosted IP Telephony	Phone Systems & Cabling	Total	Telecommunication Service & Supply	
	$	$	$	$	$	$
Year ended 30 June 2008						
Revenue						
Sales to external customers	-	1,080,088	3,334,606	4,414,694	9,446	4,424,140
Other revenues	-	56,858	11,240	68,098	1,660	69,758
Total segment revenue	-	1,136,946	3,345,846	4,482,792	11,106	4,493,898
Finance revenue	85,938	(291)	657	86,304	3,195	89,499
Total consolidated revenue				4,569,096	14,301	4,583,397
Result						
Segment results	(3,149,530)	(5,592,198)	(82,126)	(8,823,854)	(1,170,354)	(9,994,208)
Loss before tax and finance costs				(8,823,854)	(1,170,354)	(9,994,208)
Finance costs				(235,587)	-	(235,587)
Loss before income tax				(9,059,441)	(1,170,354)	(10,229,795)
Income tax				497,643	-	497,643
Net loss for the year				(8,561,798)	(1,170,354)	(9,732,152)
Assets and liabilities						
Segment assets	788,041	4,452,984	8,087,316	13,328,341	232,996	13,561,337
Total assets				13,328,341	232,996	13,561,337
Segment liabilities	223,134	643,410	1,198,129	2,064,673	11,032	2,075,705
Total liabilities				2,064,673	11,032	2,075,705
Other segment information						
Other non-cash expenses						
Depreciation and amortisation	(4,507)	(500,041)	(62,418)	(566,966)	(84,593)	(651,559)
Impairment losses	-	(4,543,942)	-	(4,543,942)	(216,430)	(4,760,372)

Cashflows for the respective segments have not been disclosed as the parent entity funded all the business segments during the financial year.

Geographical segments

The Group operates in one geographical area, Australia.

6. Other income

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Proceeds from sale of shares	-	49,944	-	-
Other	24,775	18,154	19,275	1,792
	24,775	68,098	19,275	1,792

7. Expenses

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
(a) Cost of goods				
Carriage services	1,061,392	599,233	-	-
Purchases - components	2,135,063	1,901,479	-	-
Freight & delivery charges	20,573	13,650	-	-
	3,217,028	2,514,362	-	-
(b) Administrative expenses				
Depreciation	151,055	180,815	6,262	4,507
Amortisation	-	386,151	-	-
Impairment of intangible assets (IP) Fabfone	-	3,520,562	-	-
	151,055	4,087,528	6,262	4,507
(c) Goodwill Impairment				
Impairment of goodwill – Fabfone	-	1,023,380	-	-
Impairment of goodwill – Sholl Communications	3,593,250	-	-	-
Impairment of goodwill – A K Communications	1,202,461	-	-	-
Impairment of goodwill – OneNetwork	1,519,530	-	-	-
	6,315,241	1,023,380	-	-
(d) Employee benefits expense				
Wages and salaries	2,190,129	2,443,428	597,813	864,545
Defined contribution superannuation expense	152,017	198,938	32,643	38,403
Share-based payments expense	-	51,437	-	51,437
Other employee benefits expense	76,717	175,015	44,120	113,929
	2,418,863	2,868,818	674,576	1,068,314
(e) Consulting fees				
Shares issued as consideration for services rendered	-	698,636	-	698,636
Other consulting fees	158,738	154,491	107,508	136,854
	158,738	853,127	107,508	835,490
(f) Legal and other professional fees				
Audit fees	142,161	130,227	142,161	130,227
Accounting & tax fees	43,462	109,862	43,400	118,052
Legal fees	8,519	148,731	-	149,738
	194,142	388,820	185,561	398,017

(g) Occupancy expenses				
Operating lease	205,833	118,704	205,833	30,790
Other occupancy expenses	85,281	140,319	41,686	9,248
	291,114	259,023	247,519	40,038
(h) Finance costs				
Convertible notes finance costs	20,698	223,239	20,698	223,239
Bank fees & charges	15,587	12,348	2,451	361
	36,285	235,587	23,149	223,600
(i) Other expenses				
Advertising/marketing	(3,697)	87,851	(15,000)	69,169
Bad debts	5,141	90,771	-	-
Directors fees	73,049	207,538	73,049	207,538
Insurance	42,065	53,738	36,123	26,636
Postage & couriers	7,568	18,741	-	3,810
Telephones	99,431	99,934	1,741	7,114
Travel expenses	18,448	134,533	6,970	119,343
Motor vehicle expenses	70,042	94,392	-	5,409
Regulatory and listing costs	50,271	94,785	49,211	93,927
Share-based payments expense	-	30,757	-	30,757
Equipment lease	20,015	10,683	-	-
Stock adjustments	48,035	15,541	-	-
Photocopier expenses	18,552	7,014	18,552	7,014
Penalty Tax	75,312	-	75,312	-
(Profit) / Loss on disposal of asset	17,099	6,003	-	3,043
Subscriptions	22,289	17,627	1,383	6,058
Computer expenses	50,975	4,690	534	197
Recruitment costs	12,940	-	-	-
Staff amenities	4,130	10,132	77	2,925
Repairs & maintenance	10,226	10,103	9,549	9,725
Other expenses	265,790	403,060	(143,700)	466,195
	907,681	1,397,892	113,801	1,058,860

NOTES TO THE FINANCIAL STATEMENTS (cont)

8. Income tax

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
(a) Income tax expense/(benefit)				
Income Statement Current income tax	-	-		-
Current income tax charge				-
Adjustments in respect of current income tax of previous years – R&D tax offset	354,287	497,643	324,977	-
Income tax benefit reported in the income statement	354,287	497,643	324,977	-
(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory tax rate				
Accounting loss before tax from continuing operations	(8,381,652)	(9,059,441)	(7,634,364)	(10,117,923)
Loss before tax from discontinued operations	-	(1,170,354)	-	-
Total accounting loss before income tax	(8,381,652)	(10,229,795)	(7,634,364)	(10,117,923)
At the Group's statutory income tax rate of 30% (2008:30%)	(2,514,496)	(3,068,939)	(2,290,309)	(3,035,377)
Amortisation of intellectual property	(51,003)	1,169,716	-	-
Doubtful debts	3,832	33,518	-	-
Share based payments expense	-	24,658	-	24,658
Provision for employee entitlements	(13,002)	8,006	7,888	6,628
Impairment of Goodwill	1,894,572	307,014	-	-
Provision for diminution in loan	-	-	1,988,401	905,403
Superannuation payable	-	3,506	-	5,309
Other payables	35,932	-	25,500	4,800
Other non assessable income	(106,287)	-	(97,492)	-
Other non deductible expenses	22,594	158,947	-	128,848
Share and convertible note issue expenses deductible over 5 years	(16,689)	(35,830)	(16,689)	(35,830)
Current year losses not booked as a deferred tax asset and temporary differences not booked as a deferred tax asset	744,547	1,399,404	382,701	1,995,561
Adjustments in respect of current income tax of previous years – R&D tax offset	(354,287)	(497,643)	(324,977)	-
Income Tax Expense / (Benefit)	(354,287)	(497,643)	(324,977)	-
Aggregate income tax expense/(benefit) is attributable to:				
Continuing operations	(354,287)	(207,412)	(324,977)	-
Discontinued operations	-	(290,231)	-	-
	(354,287)	(497,643)	(324,977)	-

(c) Tax losses

The Group has tax losses for which no deferred tax asset is recognised on the balance sheet of $4,614,736 (2008: $2,496,121). The recoupment of those losses will be subject to the satisfaction of relevant tax legislative requirements and sufficient taxable income available.

(d) Unrecognised temporary difference

At 30 June 2009, there is an unrecognised deferred tax asset relating to temporary differences totalling $1,385,106 (2008 : $1,411,866)

The Group has no franking credits available.

(e) Tax consolidation

(i) Members of the tax consolidated group and the tax sharing arrangement

Hostech Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2007. Hostech Limited is the head entity of the tax consolidated group.

(ii) Tax effect accounting by members of the tax consolidated group

Measurement method adopted under UIG 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. Deferred tax assets have not been recognised at reporting date as realisation of the benefitis not regarded as probable.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

9. Earnings per share

(a) Earnings used in calculating earnings per share

The following reflects the income used in the basic and diluted earnings per share computations:

	Consolidated	
	2009	2008
	$	$
Net loss from continuing operations attributable to ordinary equity holders of the parent	(8,027,365)	(8,561,798)
(Profit) / Loss attributable to discontinued operations	78,037	(1,170,354)
Net loss attributable to ordinary equity holders of the parent	(7,949,328)	(9,732,152)

(b) Weighted average number of shares

	Consolidated	
	2009	2008
Weighted average number of ordinary shares for basic or diluted earnings per share	245,042,284	170,567,658

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

10. Current assets – cash and cash equivalents

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Cash at bank and in hand	1,897,438	1,036,946	1,744,810	826,962
Short term deposits	2,930	2,930	2,000	2,000
	1,900,368	1,039,876	1,746,810	828,962

11. Current assets – trade and other receivables

	Consolidated		Parent	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Trade receivables	434,791	828,483	5,500	1,971
Allowance for impairment loss (a)	(80,520)	(120,301)	-	-
	354,271	708,182	5,500	1,971
Other debtors	69	766	-	-
Deposits	228,576	33,334	2,000	-
	582,916	742,282	7,500	1,971
Loans to controlled entities:				
Loan from Hostech to Mobi Leasing Pty Ltd	-	-	101,099	112,202
Loan from Hostech to System Activations Pty Ltd	-	-	17,595	
Loan from Hostech to OneNetwork Pty Ltd	-	-	614,121	220,000
Loan from Hostech to Sholl Communications (Aust) Pty Ltd	-	-	267,679	149,102
Loan from Hostech to A K Communications Pty Ltd	-	-	77,523	50,000
	-	-	1,078,017	531,304

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 7 - 30 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $80,520 (2008: $120,301) has been recognised by the Group in the current year. These amounts have been included in other expenses.

Movements in the provision for impairment loss were as follows:

	Consolidated		Parent	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
At 1 July	120,301	8,575	-	-
Amounts impaired	34,640	111,726	-	-
Amounts written off	(5,141)	-	-	-
At 30 June	80,520	120,301	-	-

At 30 June the ageing analysis of trade receivables is as follows:

		Total	0-30 days PDNI*	0-30 days CI*	31-60 days PDNI*	31-60 days CI*	61-90 days PDNI*	61-90 days CI*	+91 PDNI*	+91 CI*
2009	Consolidated	434,791	110,959	-	125,937	-	62,612	-	54,763	80,520
	Parent	5,500	2,200	-	2,200	-	1,100	-	-	-
2008	Consolidated	828,483	430,089	7,282	118,114	10,412	23,131	3,112	136,848	99,495
	Parent	1,971	1,971	-	-	-	-	-	-	-

*Past due not impaired ('PDNI')

Considered impaired ('CI')

Receivables past due but not considered impaired are: Consolidated $354,271 (2008: $708,182); Parent $5,500 (2008: $1,971). Payment terms on these amounts have not been re-negotiated, however where applicable credit has been stopped until payment is made in full. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(a) Related party receivables

For terms and conditions of related party receivables refer to note 23.

(b) Fair value and credit risk

Due to the short term nature of trade receivables, carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

12. Non-current assets – investments in subsidiaries

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Investments in controlled entities	-	-	15,692,323	18,181,116
Provision for diminution in MobiData Holdings Limited	-	-	-	(1,000,000)
Provision for diminution in FabFone Pty Ltd	-	-	(5,087,268)	(5,087,268)
Provision for diminution in Sholl Communications (Aust) Pty Ltd			(3,593,250)	-
Provision for diminution in OneNetwork Pty Ltd			(1,519,530)	-
Provision for diminution in A K Communications (Australia) Pty Ltd			(1,202,461)	-
Provision for diminution - other	-	-	-	(1,488,793)
Investments at recoverable amount (note 23)	-	-	4,289,814	10,605,055

13. Non-current assets – property, plant and equipment

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Consolidated				
	Plant & Equipment	**Office Equipment**	**Computer Equipment**	**Leased Motor Vehicles**	**Total**
	$	**$**	**$**	**$**	**$**
Year ended 30 June 2009					
At 1 July 2008 net of accumulated depreciation and impairment	87,842	94,505	94,564	100,297	377,208
Additions	12,356	-	10,510	-	22,866
Disposals	-	(4,676)	-	(8,530)	(13,206)
Depreciation charge for the year	(48,421)	(13,192)	(37,571)	(51,871)	(151,055)
At 30 June 2009 net of accumulated depreciation and impairment	51,777	76,637	67,503	39,896	235,813
At 30 June 2009					
Cost or fair value	203,818	106,188	114,758	248,147	672,911
Accumulated depreciation and impairment	(152,041)	(29,551)	(47,255)	(208,251)	(437,098)
Net carrying amount	51,777	76,637	67,503	39,896	235,813

	Consolidated				
	Plant & Equipment	**Office Equipment**	**Computer Equipment**	**Leased Motor Vehicles**	**Total**
	$	**$**	**$**	**$**	**$**
Year ended 30 June 2008					
At 1 July 2007 net of accumulated depreciation and impairment	112,764	-	-	-	112,764
Additions	20,420	70,359	109,253	25,668	225,700
Acquisition of subsidiary	112,221	34,309	-	228,615	375,145
Disposals	-	-	-	(91,568)	(91,568)
Assets included in discontinued operations	(32,377)	-	(618)	-	(32,995)
Depreciation charge for the year	(125,186)	(10,163)	(14,071)	(62,418)	(211,838)
At 30 June 2008 net of accumulated depreciation and impairment	87,842	94,505	94,564	100,297	377,208
At 30 June 2008					
Cost or fair value	288,509	104,668	109,253	292,086	794,516
Accumulated depreciation and impairment	(200,667)	(10,163)	(14,689)	(191,789)	(417,308)
Net carrying amount	87,842	94,505	94,564	100,297	377,208

NOTES TO THE FINANCIAL STATEMENTS (cont)

Parent	Computer Equipment	Office Equipment	Total
	$	$	$
Year ended 30 June 2009			
At 1 July 2008 net of accumulated depreciation and impairment	3,647	60,922	64,569
Additions	-	-	-
Disposals	-	-	-
Depreciation charge for the year	(1,479)	(4,782)	(6,261)
At 30 June 2009 net of accumulated depreciation and impairment	2,168	56,140	58,308
At 30 June 2009			
Cost or fair value	4,590	63,762	68,352
Accumulated depreciation and impairment	(2,422)	(7,622)	(10,044)
Net carrying amount	2,168	56,140	58,308

Year ended 30 June 2008			
At 1 July 2007 net of accumulated depreciation and impairment	-	-	-
Additions	8,358	63,762	72,120
Disposals	(3,768)	-	(3,768)
Depreciation charge for the year	(943)	(2,840)	(3,783)
At 30 June 2008 net of accumulated depreciation and impairment	3,647	60,922	64,569
At 30 June 2008			
Cost or fair value	4,590	63,762	68,352
Accumulated depreciation and impairment	(943)	(2,840)	(3,783)
Net carrying amount	3,647	60,922	64,569

NOTES TO THE FINANCIAL STATEMENTS (cont)

14. Non-current assets – intangible assets and goodwill

	Consolidated			Parent
	Intangible Assets	Goodwill	Total	Total
	$	$	$	$
Year ended 30 June 2009				
At 1 July 2008 net of accumulated amortisation and impairment	-	11,130,842	11,130,842	-
Additions	-	-	-	-
Impairment	-	(6,315,241)	(6,315,241)	-
At 30 June 2009 net of accumulated amortisation and impairment	-	4,815,601	4,815,601	-
At 30 June 2009				
Cost (gross carrying amount)	3,520,562	12,154,222	15,674,784	-
Accumulated amortisation and impairment	(3,520,562)	(7,338,621)	(10,859,183)	-
Net carrying amount	-	4,815,601	4,815,601	-
At 30 June 2008				
At 1 July 2007 net of accumulated amortisation and impairment	3,520,562	1,023,380	4,543,942	-
Acquisition of subsidiary	-	11,130,842	11,130,842	-
Accumulated amortisation and impairment	(3,520,562)	(1,023,380)	(4,543,942)	-
Net carrying amount	-	11,130,842	11,130,842	-
Year ended 30 June 2008				
Cost (gross carrying amount)	3,520,562	12,154,222	15,674,784	-
Accumulated amortisation and impairment	(3,520,562)	(1,023,380)	(4,543,942)	-
Net carrying amount	-	11,130,842	11,130,842	-

*Goodwill is broken down as follows:

Sholl Communication (Aust) Pty Ltd	$1,951,053
OneNetwork Pty Ltd	$2,462,456
AK Communications Pty Ltd	$ 402,092
	$4,815,601

(a) Intangible asset - IP

The intellectual property acquired as part of the Fabfone Pty Ltd acquisition in 2006, being software that allows the system to switch between standard mobile GSM communication connections to Voice over Internet Protocol (VoIP), has been fully impaired as at 30 June 2008. Following the acquisition of OneNetwork, all of Fabfone IP clients were migrated across to the fully hosted OneNetwork IP offering. As a result of the migration, Fabfone ceased to be an operational entity within Hostech (formerly Mobi). Accordingly, management made the decision to fully impair the IP based on the fact that there would be no future economic benefit from its use or disposal.

(b) Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment (refer to section (i) of this note).

Impairment loss recognised

An impairment loss of $6,315,241 on goodwill was recognised in the financial year, 30 June 2009. The impaired goodwill relates to the purchase of Sholl Communication (Aust) Pty Ltd, OneNetwork Pty Ltd and A K Communications (Australia) Pty Ltd in the financial year, 30 June 2008.

The decision taken by the new Board to write down goodwill followed a significant review of the Company's strategy, operations and business plans going forward. The impairment loss reflects, amongst other factors, the fact that there has been a significant downturn in the phone reseller market (a trend which became more apparent in the second half of the year) and a realistic view of the future prospects of the phone systems and hosted IP telephony businesses. The carrying value of goodwill at 30 June 2009 recognises the changes in the market outlook for both businesses and allows for more conservative growth assumptions for those applied in earlier periods.

Impairment tests for goodwill

(i) Description of the cash generating units and other relevant information

Goodwill acquired through business combinations have been allocated to two individual cash generating units, each of which is a reportable segment (refer to note 5), for impairment testing as follows:

- Phone systems and cabling; and
- Hosted IP telephony

Phone systems and cabling cash generating unit

The recoverable amount of the phone systems and cabling unit has been determined based on a value in use calculation using cash flow projections as at 1 July based on financial budgets approved by senior management covering a one-year period and projected cash flows for a further four years.

The pre-tax, discount rate applied to cash flow projections is 12% and cash flows beyond the five-year period are extrapolated using a 3% growth rate.

Hosted IP Telephony cash generating unit

The recoverable amount of the Hosted IP Telephony unit is also determined based on a value in use calculation using cash flow projections as at 1 July based on financial budgets and projections approved by management covering a five-year period.

The pre-tax discount rate applied to the cash flow projections is 12%. The long-term growth rate used to extrapolate the cash flows of the IP telephony unit beyond the five-year period is 5%.

The discount rate for Hosted IP Telephony has been revised compared to the prior year and reflects both the cost of funds for the business and the business risks associated with realisation of the cash flows. As noted above, the cash flow assumptions used for the business unit are more conservative than those used in prior periods and reflect the revised outlook for the business in the current market.

(iii) Carrying amount of goodwill allocated to each of the cash generating units

The carrying amounts of goodwill allocated to the cabling and hosted IP telephony units are as follows:

	Consolidated					
	Phone systems and cabling		**Hosted IP telephony**		**Total**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**	**$**	**$**
Carrying amount of goodwill	2,353,145	7,148,856	2,462,456	3,981,986	4,815,601	11,130,842

(iii) Key assumptions used in value in use calculations for the phone systems and cabling and hosted IP telephony units for 30 June 09

The calculation of value in use for both the phone systems and cabling and hosted IP telephony units is most sensitive to the following assumptions:

• gross margins;

• discount rates;

• growth rate used to extrapolate cash flows beyond the budget period.

Gross margins – gross margins are based on the average values achieved in the year preceding the start of the budget period. These are increased over the budget improvements to the scale and efficiency of the business.

Discount rates - discount rates reflect management's estimate of the time value of money and the risks specific to each unit that are not already reflected in the cash flows. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each unit, regard has been given to the weighted average cost of capital of the entity as a whole and adjusted for business risk specific to the unit.

Growth rate estimates – the phone systems and cabling unit cashflows were modelled on 10% growth over the five year cash flow period, with a long-term growth rate of 3%. The 10% growth rate reflects the opportunity to increase the scale and scope of the operation in the short to medium term.

The hosted IP telephony growth rates were developed on a top down analysis of the market and making conservative assumptions about the adoption of this technology in the traditional IP telephony space.

(iv) Sensitivity to changes in assumptions

Phone systems and cabling

With respect to the assessment of the value in use of the phone systems and cabling unit, management believes that a reasonably possible change in any of the key assumptions would not cause the carrying value of the unit to fall materially below its recoverable amount.

Hosted IP telephony

With respect to the assessment of the value in use of the hosted IP telephony unit, management believes that a reasonably possible change in any of the key assumptions would not cause the carrying value of the unit to fall materially below its recoverable amount.

15. Current liabilities – trade and other payables

	Consolidated		Parent	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Trade payables	586,725	1,189,638	139,239	299,208
Other creditors and accruals	402,303	178,574	232,303	122,277
	989,028	1,368,212	371,542	421,485

(a) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

16. Current liabilities - provisions

	Consolidated		Parent	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Annual leave	131,029	166,436	46,158	21,603

17. Non-current liabilities - provisions

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Long service leave	8,993	16,926	2,229	490

18. Interest-bearing loans and borrowings

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Current				
Obligations under finance leases (note 26)	41,410	61,596	-	-
Non-current				
Obligations under finance leases (note 26)	83,982	111,138	-	-

(a) Fair values

The carrying amount of the Group's current and non-current borrowings approximate their fair value.

19. Contributed Equity

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Ordinary shares				
(a) **Ordinary shares**				
Issued and fully paid	31,191,109	28,543,859	67,298,110	64,560,860
Convertible Notes	5,015	13,298	5,015	13,298
	31,196,124	28,557,157	67,303,125	64,574,158

As at 30 June 2009, convertible notes outstanding totalled $110,000. These notes carry the following terms:

NOTES TO THE FINANCIAL STATEMENTS (cont)

- $100,000 1 year convertible notes at $0.125 per share, 8% interest per annum
- $10,000 2 years convertible notes at $0.125 per share, 10% interest per annum

The carrying amount of the convertible notes approximates their fair value.

The convertible notes are redeemable at call.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(a) Issued ordinary shares during the year

	No. Of Ordinary Shares		$	$
	2009	2008	2009	2008
As at 1 July	220,466,942	1,758,093,330	28,543,859	12,116,473
Movement in ordinary shares on issue				
On 19 September 2007, issue of 750,000,000 fully paid ordinary shares at an issue price of $0.005 per share for the acquisition of Sholl Communications Pty Ltd	-	750,000,000	-	3,750,000
On 19 September 2007, issue of 833,000,000 fully paid ordinary shares at an issue price of $0.005 per share for the acquisition of OneNetwork Pty Ltd	-	833,000,000	-	4,165,000
On 24 September 2007, issue of 40,404,040 fully paid ordinary shares at an issue price of $0.0069 per share	-	40,404,040	-	278,788
Share on issue at 2 October 2007 prior to 1:25 consolidation of capital	-	3,381,497,370	-	-
On 3 October 2007, Mobi consolidated its capital on a 1:25 basis.	-	135,259,990	-	-
On 5 October 2007, issue of 46,377,440 fully paid ordinary shares at an issue price of $0.125 per share	-	46,377,440	-	5,797,180
On 5 October 2007, issue of 4,880,000 fully paid ordinary shares at nil consideration	-	4,880,000	-	-
On 6 December 2007, issue of 2,480,000 fully paid ordinary shares at an issue price of $0.125 per share	-	2,480,000	-	310,000
On 7 December 2007, issue of 520,000 fully paid ordinary shares at an issue price of $0.125 per share	-	520,000	-	65,000
On 7 December 2007, issue of 80,000 fully paid ordinary shares at an issue price of $0.125 per share	-	80,000	-	10,000
On 10 January 2008, issue of 10,960,000 fully paid ordinary shares at an issue price of $0.125 per share for the acquisition of AK Communications Pty Ltd	-	10,960,000	-	1,370,000
On 11 January 2008, issue of 1,317,305 fully paid ordinary shares at an issue price of $0.0995 per share	-	1,317,305	-	131,072
On 14 February 2008, issue of 3,300,00 fully paid ordinary shares at an issue price of $0.08 per share	-	3,300,000	-	264,000
On 14 February 2008, issue of 1,562,200 fully paid ordinary shares at an issue price of $0.08 per share	-	1,562,500	-	125,000
On 14 March 2008, issue of 1,100,00 fully paid ordinary shares at an issue price of $0.065 per share	-	1,100,000	-	71,500
On 24 April 2008, issue of 1,696,371 fully paid ordinary shares at an issue price of $0.03 per share	-	1,696,371	-	50,891
On 21 May 2008, issue of 5,166,669 fully paid ordinary shares at an issue price of $0.03 per share	-	5,166,669	-	155,000
On 29 May 2008, issue of 1,500,000 fully paid ordinary shares at an issue price of $0.03 per share	-	1,500,000	-	45,000

On 5 June 2008, issue of 2,066,667 fully paid ordinary shares at an issue price of $0.03 per share	-	2,066,667	-	62,000
On 26 June 2008, issue of 2,200,000 fully paid ordinary shares at an issue price of $0.028 per share	-	2,200,000	-	61,600
On 4 March 2009, issue of 20,000,000 fully paid ordinary shares at an issue price of $0.01 per share	20,000,000	-	200,000	-
On 5 May 2009, issue of 3,750,000 fully paid ordinary shares at an issue price of $0.01 per share	3,750,000	-	37,500	-
On 2 June 2009, issue of 250,000,000 fully paid ordinary shares at an issue price of $0.01 per share	250,000,000	-	2,500,000	-
Transaction costs on share issue		-	(90,250)	(284,645)
Closing balance as at 30 June	494,216,942	220,466,942	31,191,109	28,543,859

During the year transaction costs relating to contributed equity were $90,250 (2008: $284,645)

Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

No dividends were paid for the financial year ended 30 June 2009 and 2008.

The Group is not subject to any externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS (cont)

20. Other equity instruments

	Number of Options 2009
On Issue at 1 July 2008	
Exercisable at $0.25 by 30 September 2008	36,310,008
Exercisable at $0.25 by 31 December 2008	17,172,000
Exercisable at $0.50 by 31 December 2008	4,000,012
Exercisable at $0.375 by 31 December 2008	18,200,000
Exercisable at $0.1725 by 12 September 2011	404,041
Exercisable at $0.0995 by 27 November 2010	329,326
Exercisable at $0.03 by 24 April 2011	550,000
Exercisable at $0.028 by 26 June 2011	550,000
	77,515,387
Issued between 1 July 2008 & 30 June 2009	
Exercisable at $0.013 by 30 June 2012	5,000,000
Exercisable at $0.013 by 31 December 2011	6,125,000
Exercisable at $0.01 by 1 March 2012	5,000,000
Exercisable at $0.01 by 22 June 2014	250,000,000
	266,125,000
Cancelled during the year	
Exercisable at $0.25 by 30 September 2008	36,310,008
Exercisable at $0.25 by 31 December 2008	17,172,000
Exercisable at $0.50 by 31 December 2008	4,000,012
Exercisable at $0.375 by 31 December 2008	18,200,000
Exercisable at $0.13 by 31 December 2011	250,000
Exercisable at $0.13 by 30 June 2012	1,000,000
	76,932,020
Exercised during the year	
Exercisable at $0.01 by 1 March 2012	3,750,000
	3,750,000
Outstanding at 30 June 2009	
Exercisable at $0.013 by 30 June 2012	4,000,000
Exercisable at $0.013 by 31 December 2011	5,875,000
Exercisable at $0.01 by 1 March 2012	1,250,000
Exercisable at $0.01 by 22 June 2014	250,000,000
Exercisable at $0.1725 by 12 September 2011	404,041
Exercisable at $0.0995 by 27 November 2010	329,326
Exercisable at $0.03 by 24 April 2011	550,000
Exercisable at $0.028 by 26 June 2011	550,000
	262,958,367

NOTES TO THE FINANCIAL STATEMENTS (cont)

	Number of Options 2008
On Issue at 1 July 2007	
Exercisable at $0.01 on or before 31 December 2007	24,000,000
Exercisable at $0.016 on or before 31 December 2007	5,000,000
Exercisable at $0.022 by 31 December 2007	6,763,631
Exercisable at $0.02 by 31 December 2008	100,000,000
Exercisable at $0.01 by 30 September 2008	207 750 000
Exercisable at $0.01 by 30 September 2008	700,000,000
	1,272,813,631
Issued between 1 July 2007 & 3 October 2007 (1:25 Consolidation of Capital Record Date)	
Exercisable at $0.01 by 31 December 2008	75,000,000
Exercisable at $0.015 by 31 December 2008	455,000,000
Exercisable at $0.0069 by 12 September 2011	10,101,010
	540,101,010
On Issue at October 3 2007	
Exercisable at $0.25 by 30 September 2008	36,310,008
Exercisable at $0.25 by 31 December 2008	12,172,000
Exercisable at $0.25 on or before 31 December 2007	960,000
Exercisable at $0.50 by 31 December 2008	4,000,012
Exercisable at $0.40 on or before 31 December 2007	200,000
Exercisable at $0.55 by 31 December 2007	270,549
Exercisable at $0.375 by 31 December 2008	18,200,000
Exercisable at $0.1725 by 12 September 2011	404,041
	72,516,610
Issued between 3 October 2007 and 30 June 2008	
Exercisable at $0.25 by 31 December 2008	5,000,000
Exercisable at $0.0995 by 27 November 2010	329,326
Exercisable at $0.03 by 24 April 2011	550,000
Exercisable at $0.028 by 26 June 2011	550,000
	6,429,326
Cancelled during the year	
Exercisable at $0.25 on or before 31 December 2007	960,000
Exercisable at $0.40 on or before 31 December 2007	200,000
Exercisable at $0.55 by 31 December 2007	270,549
	1,430,549
Outstanding at 30 June 2008	
Exercisable at $0.25 by 30 September 2008	36,310,008
Exercisable at $0.25 by 31 December 2008	17,172,000
Exercisable at $0.50 by 31 December 2008	4,000,012
Exercisable at $0.375 by 31 December 2008	18,200,000
Exercisable at $0.1725 by 12 September 2011	404,041
Exercisable at $0.0995 by 27 November 2010	329,326
Exercisable at $0.03 by 24 April 2011	550,000
Exercisable at $0.028 by 26 June 2011	550,000
	77,515,387

NOTES TO THE FINANCIAL STATEMENTS (cont)

21. Accumulated losses and reserves

(a) Movements in accumulated losses were as follows:

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Balance 1 July	(17,458,587)	(7,726,435)	(53,813,302)	(43,695,379)
Net Loss	(7,949,328)	(9,732,152)	(7,231,350)	(10,117,923)
Expired Share Options	387,062	-	397,062	-
Balance 30 June	(25,020,853)	(17,458,587)	60,647,590	(53,813,302)

(b) Other reserves

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Employee benefits equity reserve	-	91,122	-	101,122
Options reserve	-	295,940	-	295,940
	-	387,062	-	397,062

Employee benefits equity reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

Options reserve

In the financial year ended 30 June 2009, the options reserve and employee benefits equity reserve were transferred to accumulated losses as the options had expired.

A total of 5 million and 2.5 million options were issued to Directors and Executives respectively, in the financial year ended 30 June 2009. No share based payment was recognised in the accounts.

22. Cash flow statement reconciliation

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
(a) Reconciliation of net loss after tax to net cash flows from operations				
Net loss	(7,949,328)	(9,732,152)	(7,231,350)	(10,117,923)
Adjustments for:				
Amortisation of intellectual property	-	439,721	-	-
Impairment of intangible assets and goodwill	6,315,241	4,760,372	-	-
Depreciation	151,055	211,838	6,262	3,783
Share issue costs	111,725	251,792	-	251,792
Share based payments expense	-	82,194	-	82,194
Net loss on disposal of plant & equipment	17,099	-	-	-
Net (profit) / loss on disposal of MobiData Holdings	(78,037)	-	(78,037)	-
Provision for diminution in investment	-	-	6,315,241	5,087,268
Shares issued as consideration of services rendered	-	739,936	-	739,936
Non cash stock adjustments	48,035	-	-	-
Other non cash adjustments	87,803	-	60,949	-
Changes in assets and liabilities:				
(Increase) / Decrease in trade and other receivables	159,366	86,907	(5,529)	(70,895)
(Increase) / Decrease in inventories	38,133	(36,078)	-	-
(Increase) / Decrease other current assets	232,996	116,094		(349,987)
(Decrease) /Increase in trade and other payables	(379,184)	(364,699)	(49,943)	357,990
(Decrease) / Increase in provisions	(43,340)	26,688	26,294	22,903
(Decrease) / Increase in loan	(47,342)	(87,930)	-	-
(Decrease) / Increase in other liabilities	(11,032)	-	-	-
	(1,346,810)	(3,505,317)	(956,113)	(3,992,939)

23. Related party disclosure

(a) Subsidiaries

The consolidated financial statements include the financial statements of Hostech Limited and the subsidiaries listed in the following table.

Name	Country of Incorporation	% Equity Interest		Investments ($)	
		2009	2008	2009	2008
MobiData Holdings Pty Ltd*	Australia	-	100	-	-
Mobi Leasing Pty Ltd	Australia	100	100	-	-
Systems Activations Pty Ltd	Australia	100	100	1	1
Fabfone Pty Ltd	Australia	100	100	-	-
OneNetwork Pty Ltd	Australia	100	100	2,718,565	4,238,095
Sholl Communications (Aust) Pty Ltd	Australia	100	100	1,273,709	4,866,960
Sholl and Lewis Business Systems Pty Ltd	Australia	100	100	-	-
A K Communications Pty Ltd	Australia	100	100	297,539	1,500,000
				4,289,814	10,605,056

*MobiData Holdings was sold on 1 July 2009

NOTES TO THE FINANCIAL STATEMENTS (cont)

(b) Ultimate parent

Hostech Limited is the parent entity and is the highest entity producing public financial statements.

(c) Key management personnel

Details relating to KMP, including remuneration paid, are included in note 24.

(d) Transaction with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances on related party trade receivables and payables at year-end, refer to notes 11 and 15 respectively):

Related Party		Sales to Related Parties $	Purchases from Related Parties $	Other Transactions with Related Parties $
Parent entity:				
Hostech Limited – loans to controlled entities (e) :				
OneNetwork Pty Ltd	2009	-	-	614,121
Sholl Communications (Aust) Pty Ltd	2009	-	-	267,679
AK Communications Pty Ltd	2009	-	-	77,523
Subsidiaries:				
OneNetwork Pty Ltd	2009	-	-	-
Sholl Communications (Aust) Pty Ltd	2009	11,572	-	-
AK Communications Pty Ltd	2009	-	5,322	-
Sholl Business Systems Pty Ltd	2009	5,069	11,319	-

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

(e) Loans from related parties

During the year the parent entity made several loans to its wholly-owned controlled entities, these loans carry no interest charge and have no set date for repayment.

24. Key Management Personnel

(a) Details of Key Management Personnel

(i) Directors

Campbell Corfe –Executive Chairman (appointed Executive Director 2nd June 2009, appointed Executive Chairman 29 June 2009)

Terry Wills Cooke – Non Executive Director (resigned Chairman 29 June 2009, appointed Non-Executive Director 29 June 2009)

Michael Abela – Chief Executive & Director

Matthew Costello – Non-Executive Director (appointed 2 June 2009)

Alan Chalmers – Non-Executive Director (appointed 29 June 2009)

Vince Leone – Non-Executive Director (resigned 2 June 2009)

Damian Woods – Non-Executive Director (resigned 2 June 2009)

(ii) Executives

Malcolm Lewis – General Manager of Sholl Communications

Andrew Bauer – General Manager of AK Communications (resigned 15 July 2009)

Trevor Kelly – Chief Operations Officer (employment ceased 30 June 2009)

Veronica Duff – Financial Controller

Justyn Stedwell – Company Secretary

(b) Compensation for Key Management Personnel

	Consolidated		Parent	
	2009	**2008**	**2009**	**2008**
Short term employee benefits	874,223	1,317,924	464,045	1,172,425
Post-employment benefits	57,645	81,523	34,338	66,917
Equity-based payments	13,750	48,244	9,050	48,244
	945,618	1,447,691	507,433	1,287,586

NOTES TO THE FINANCIAL STATEMENTS (cont)

(c) Option holdings of Key management Personnel (Consolidated)

Details of options issued to directors and key executives during the year ended 30 June 2009, are set out below (please note options are referred to on a post-consolidated basis):

30 June 2009	Opening balance*	Granted as Remuneration	Acquired	Lapsed	Holdings by Previous Directors	Balance 30 Jun 2009
Directors						
Michael Abela	1,600,000	3,000,000	-	(1,600,000)	-	3,000,000
Terry Wills Cooke	-	1,000,000	-	-	-	1,000,000
Campbell Corfe	-	-	-	-	-	-
Matthew Costello	-	-	-	-	-	-
Alan Chalmers	-	-	-	-	-	-
Previous Director						
Damian Woods	5,643,000	1,000,000	-	(6,643,000)	-	-
Vince Leone	1,000,000	-	-	(1,000,000)	-	-
Executives						
Justyn Stedwell	1,700,000	500,000	-	-	-	2,200,000
Veronica Duff	-	1,000,000	-	-	-	1,000,000
Andrew Bauer	-	-	-	-	-	-
Trevor Kelly	-	1,000,000	-	-	-	1,000,000
Malcolm Lewis	-	1,000,000	-	-	-	1,000,000
Total	**9,943,000**	**8,500,000**	**-**	**(9,243,000)**	**-**	**9,200,000**

*Opening balance refers to the opening balance as at 1 July 2008 or the date that the director/executive became a director/executive.

30 June 2008	Opening balance	Granted as Remuneration	Acquired	Disposed	Holdings by Previous Directors	Balance 30 Jun 2008
Directors						
Michael Abela	-	-	1,600,000	-	-	1,600,000
Terry Wills Cooke	-	-	-	-	-	-
Damian Woods	-	-	5,643,000	-	-	5,643,000
Vince Leone	-	1,000,000	-	-	-	1,000,000
Previous Director						
Fabio Pannuti	8,059,505	-	-	-	(8,059,505)	-
Garry Sholl	-	1,000,000	-	-	(1,000,000)	-
Nicholas Pike	-	1,000,000	-	-	(1,000,000)	-
Executives						
Justyn Stedwell	-	1,700,000	-	-	-	1,700,000
Veronica Duff	-		-	-	-	-
Andrew Bauer	-		-	-	-	-
Malcolm Lewis	-		-	-	-	-
Total	**8,059,505**	**4,700,000**	**7,243,000**	**-**	**(10,059,505)**	**9,943,000**

(d) Shareholdings of Key Management Personnel

Shares held in Hostech Limited (number)

30 June 2009	Opening balance	Granted as Remuneration	Acquired	Disposed	Other	Balance 30 Jun 2009
Directors						
Michael Abela	3,567,169	-	-	-	-	3,567,169
Terry Wills Cooke	1,000,000	-	1,000,000	-	-	2,000,000
Campbell Corfe	-	-	-	-	-	-
Matthew Costello	-	-	-	-	-	-
Alan Chalmers	-	-	-	-	-	-
Previous Director						
Damian Woods	17,096,667	-		-	-	17,096,667
Vince Leone	800,000	-		-	-	800,000
Executives						
Justyn Stedwell	265,000	-	-	-	-	265,000
Veronica Duff	122,500	-	-	-	-	122,500
Andrew Bauer	8,800,000	-	-	(2,504,480)		6,295,520
Trevor Kelly	-	-	372,100	-	-	372,100
Malcolm Lewis	11,160,000	-	-	-	-	11,160,000
Total	**42,811,336**	**-**	**1,372,100**	**(2,504,480)**	**-**	**41,678,956**

30 June 2008	Opening balance	Granted as Remuneration	Acquired	Disposed	Other	Balance 30 Jun 2008
Directors						
Michael Abela	-	-	3,567,169	-	-	3,567,169
Terry Wills Cooke	-	-	1,000,000	-	-	1,000,000
Damian Woods	-	-	17,096,667	-	-	17,096,667
Vince Leone	-	-	800,000	-	-	800,000
Previous Director						
Fabio Pannuti	8,059,505	-	-	-	(8,059,505)	-
Garry Sholl	300,000	-	18,640,000	(1,840,000)	(17,100,000)	-
Nicholas Pike	-	-	-	-	-	-
Executives						
Justyn Stedwell	-	-	265,000	-	-	265,000
Veronica Duff	-	-	122,500	-	-	122,500
Andrew Bauer	-	-	8,960,000	(160,000)	-	8,800,000
Malcolm Lewis	-	-	11,400,000	(240,000)	-	11,160,000
Total	**8,359,505**	**-**	**61,851,336**	**(2,240,000)**	**(25,159,505)**	**42,811,336**

NOTES TO THE FINANCIAL STATEMENTS (cont)

(e) Other transactions and balances with Key Management Personnel and their related parties

Transactions with Directors and director related entities are in the normal course of business and at arms' length.

25. Share-based payment plans

The Group provides benefits in the form of share-based payments to all employees. To date however, only key management personnel of the Group have benefited from this plan. These KMP's render services in exchange for shares or rights over shares (equity settled transactions).

The cost of these equity settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they were granted. The fair value for the 2009 and 2008 options were determined by using the Black Scholes model.

The following table illustrates the number (No) and weighted average exercise prices (WAEP) of and movements in, share options issued during the year.

	2009 No	**2009 WAEP**	**2008 No**	**2008 WAEP**
Outstanding at the beginning of the year	**9,943,000**	**0.250**	**-**	**0.000**
Granted during the year	11,125,000	0.013	9,943,000	0.250
Forfeited during the year	-	0.000	-	0.000
Exercised during the year	-	0.000	-	0.000
Lapsed during the year	(8,109,633)	0.250	-	0.000
Expired during the year	(1,250,000)	0.013	-	0.000
Outstanding at the end of the year	**11,708,367**	**0.022**	**9,943,000**	**0.250**

- 5,875,000 options granted to employees over ordinary shares with an exercise price 0.013 each, exercisable upon meeting the market conditions and until 31 December 2011.
- 4,000,000 options granted to directors over ordinary shares with an exercise price 0.013 each, exercisable upon meeting the market conditions and until 30 June 2012.
- 550,000 options granted to directors over ordinary shares with an exercise price 0.028 each, exercisable until 26 June 2011.
- 550,000 options granted to directors over ordinary shares with an exercise price 0.03 each, exercisable until 24 April 2011.
- 404,041 options granted to directors over ordinary shares with an exercise price 0.1725 each, exercisable until 12 September 2011.
- 329,326 options granted to directors over ordinary shares with an exercise price 0.0995 each, exercisable until 27 November 2010.

The fair value of the equity settled share options is estimated at the date of grant using the Black Scholes model.

- The fair value for director's options granted during the financial year was calculated as \$0.003 per option.
- The fair value for employee's options granted during the financial year was calculated as \$0.002 per option.

The options issued during the financial year will vest when the share price reaches a certain level determined by the Board.

No expenses in relation to the issue of share options have been recognised for the financial year ended 30 June 2009.

Options issued to employees in year 2009 were fair valued as follows:

- Stock asset price \$0.009
- Option Strike price \$0.013
- Maturity 2.8 years
- Risk free interest rate 3.5%
- Volatility – 50%

Options issued to directors in year 2009 were fair valued as follows:

- Stock asset price \$0.006
- Option Strike price \$0.013
- Maturity 3.5 years
- Risk free interest rate 6%
- Volatility – 20%

NOTES TO THE FINANCIAL STATEMENTS (cont)

26. Commitments

(i) Leasing commitments

Operating lease commitments – Group as lessee

The consolidated entity has entered into commercial leases for office space. These leases have a life between 3 and 4 years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Within one year	255,975	264,599	213,675	264,598
After one year but not more than five years	201,689	520,455	95,940	490,194
After more than five years	-	32,858	-	-
Total minimum lease payments	457,664	817,912	309,615	754,792

Finance lease commitments – Group as lessee

The Group has entered into commercial leases on motor vehicles.

These leases have an average life of between 3 and 5 years with an option to renew the contracts at the end of the lease term. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Within one year	41,410	61,596	-	-
After one year but not more than five years	83,982	111,138	-	-
After more than five years	-		-	-
Total minimum lease payments	125,392	172,734	-	-

(ii) Employee remuneration commitments

Amounts disclosed as employee remuneration commitments include commitments arising from the service contracts of employee under non-cancellable employment contracts in existence at reporting date but not recognised as liabilities.

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Commitments for the payment of salary and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities payable:				
Within one year	380,000	342,000	380,000	342,000
After one year but not more than five years	-	114,000	-	114,000
	380,000	456,000	380,000	456,000

27. Contingencies

(i) Legal Claim

Hostech Limited's previous external tax agents, M V Anderson & Co., have commenced an action against the Parent in respect of unpaid invoices totalling $63,690. Over the last twelve months, the Parent continuously disputed the amount claiming the invoices were incorrect and had been actively seeking clarification of the invoices in question when the action was received. A liability of $16,918 has been recognised in these financial statements as management believe this to be the correct amount payable by the Parent.

28. Discontinued Operations

(a) Details of operations held for sale

On 10 June 2008, the Board of Directors entered into a sale agreement to sell MobiData Holdings Limited and its subsidiary MobiData Group Pty Ltd.

The Sale was completed on 1 July 2008, on which date control of the business passed to the acquirer. The Parent entity made a profit on sale of MobiData Holdings Limited of $78,037.

(b) Financial performance of operations held for sale

The results of the discontinued operations for the financial year 2008 until disposal are presented below:

NOTES TO THE FINANCIAL STATEMENTS (cont)

	2008 $
Revenue	14,301
Expenses	(968,225)
Gross profit/(loss)	(953,924)
Impairment of Goodwill	(216,430)
Loss for the year from discontinued operations	(1,170,354)

(c) Assets and liabilities – held for sale operations

The major classes of assets and liabilities of MobiData Holdings Limited and its subsidiary MobiData Group Pty Ltd at 30 June 2008 are as follows:

	2008 $
Assets	
Intangibles	200,000
Property, plant & equipment	32,996
Assets classified as held for sale	232,996
Liabilities	
Provisions	(11,032)
Liabilities directly associated with assets classified as held for sale	(11,032)
Net assets attributable to discontinued operations	221,964

29. Events after the balance sheet date

In July 09, the Parent issued 500,000 convertible notes to Flaxton Hunter Pty Ltd, pursuant to the Subscription Agreement between the two parties, to raise a further $500,000 at $1.00 convertible at $0.02.

In July 09, the Parent entered into a terms sheet for a major acquisition. Initial due diligence has been completed with the Board satisfied that this acquisition will have the ability to deliver both profitability and strong strategic growth to the business.

No other matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

NOTES TO THE FINANCIAL STATEMENTS (cont)

30. Auditors' remuneration

The auditor of Hostech Limited is Ernst & Young.

	Consolidated		Parent	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Amounts received or due and receivable by Ernst & Young for:				
• an audit or review of the financial report of the entity and any other entity in the consolidated group	142,161	130,227	142,161	130,227

Directors' Declaration

In accordance with a resolution of the directors of Hostech Limited, I state that:

1. In the opinion of the directors:

> (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
>
> (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
>
> (ii) complying with Accounting Standards and Corporations Regulations 2001; and
>
> (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2009.

On behalf of the Board

Mr Campbell Corfe

Chairman

Melbourne, 31st August 2009

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Independent auditor's report to the members of Hostech Limited

Report on the Financial Report

We have audited the accompanying financial report of Hostech Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. the financial report of Hostech Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of Hostech Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 20 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Hostech Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

June Wilson

June Wilson
Partner
Melbourne
31 August 2009

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 August 2009.

(a) Distribution of equity securities

(i) Ordinary share capital

- 494,216,942 fully paid ordinary shares are held by 1,200 individual shareholders. All issued shares carry one vote per share and carry the rights to dividends.

(ii) Options

262,958,367 options are held by 14 individual option holders.

Options do not carry a right to vote.

The number of shareholders, by size of holding, in each class are:

	Fully Paid Ordinary Shares	Options
1 – 1000	156	-
1,001 – 5,000	152	-
5,001 – 10,000	142	-
10,001 – 100,000	512	-
100,001 and over	238	14
	1,200	14

(b) Substantial shareholders

Ordinary shareholders	Fully Paid Number	Percentage
Flaxton Hunter Pty Ltd	250,000,000	50.59%
Algebraic Pty Ltd	29,515,080	5.97%
Mr Damian Ashley Woods	17,096,667	3.46%
Penleigh Banner Pty Ltd	12,541,819	2.54%
Lewis & Lewis Corp Pty Ltd	11,160,000	2.26%
	320,313,566	64.82%

ASX Additional Information (cont)

(c) Twenty largest holders of equity securities

Ordinary shareholders	Fully Paid Number	Percentage
Flaxton Hunter Pty Ltd	250,000,000	50.59%
Algebraic Pty Ltd	29,515,080	5.97%
Mr Damian Ashley Woods	17,096,667	3.46%
Penleigh Banner Pty Ltd	12,541,819	2.54%
Lewis & Lewis Corp Pty Ltd	11,160,000	2.26%
Sholstra Pty Ltd <The GJ Sholl Family A/C>	8,000,000	1.62%
Mr Daniel Benedict Wallis	7,280,000	1.47%
Lilly Bianca Pty Ltd <Bauer Family A/C>	6,295,520	1.27%
Harjoe Corporation	5,983,600	1.21%
Mr Anthony Charles Sterpin	5,466,667	1.11%
Mr Jason John Cook	4,946,243	1.00%
Eastwood Australia Pty Ltd	4,591,300	0.93%
Mr Michael Abela	3,567,169	0.72%
Mr Vince Truda <Vince Truda Super A/C>	3,347,800	0.68%
Dabvale Pty Ltd	3,000,000	0.61%
Mr Ainis Andris Lauks	2,780,000	0.56%
Collins Street Group Pty Ltd	2,500,000	0.51%
Mr Ming Sun & Mrs Alice Sun	2,500,000	0.51%
TSG Pacific Pty Ltd	2,480,000	0.50%
HSBC Custody Nominees (Australia) Limited	2,310,245	0.47%
	385,362,110	77.99%