Cellnet Group Limited
and its controlled entities

Financial Report
For the Year Ended
30 June 2010

Contents

Corporate Information

ABN 97 010 721 749

Directors
A. Beard (Chairman)
M. Brookman
S. Smith (Managing Director)

Company Secretary
D. Mackenzie
S. Smith (Managing Director)

Principal Registered Office
Cellnet Group Limited
59-61 Qantas Drive
Eagle Farm QLD 4009
Phone: 1300 CELLNET
Fax: 1800 CELLNET

Banker
Westpac Bank Corporation
260 Queen Street
Brisbane QLD 4000

Auditor
Ernst & Young
1 Eagle Street
Brisbane QLD 4000

Share Register
Link Market Services Ltd
Level 19 ANZ Building
324 Queen Street, Brisbane QLD 4000
Phone: 1300 554 474

Securities Exchange
The Company is listed on the Australian Securities Exchange. The Home exchange is Brisbane.

Directors' report

Your Directors submit their report for the year ended 30 June 2010.

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Mr A. Beard, B.Com, MAICD, FCA (Non executive Chairman)
Appointed Director 15 December 2006. Appointed Chairman 20 August 2007. Current Director and Chief Executive Officer of CVC Limited, the largest single shareholder of Cellnet Group Limited. Broad investment and financial experience, particularly with emerging companies. Member of the Audit and Risk Management Committee. Currently serves on the Board of the following listed companies:

- CVC Property Fund (appointed 23 December 2005)
- Mnet Group Limited (formerly Mercury Mobility Limited) (appointed 7 June 2007).
- Amadeus Energy Limited (appointed 14 October 2009)
- CVC Limited (appointed 31 August 2000)

Mr M Brookman (Non executive Director)
Appointed 4 June 1992. Co-founder of Cellnet in 1992. Over 17 years experience in the mobile phone and IT distribution industries. Previous Managing Director of the Company from 1999 to 28 November 2002. Chairman of the Audit and Risk Management Committee. Currently serves on the Board of the following listed companies:

- Mnet Group Limited (formerly Mercury Mobility Limited) (appointed 7 June 2007) Chairman.

Mr S Harrison (Non executive Director)
Appointed 20 August 2007. Co-founder of Cellnet in 1992. Previous Managing Director of the Company from 28 November 2002 to 31 May 2005 and 20 August 2007 to 30 January 2009. Over 16 years experience in IT and Telecommunications Industries. Member of Audit and Risk Management Committee. Resigned 31 July 2010.

Mr S Smith, B.Com, MAICD, CA (Executive Director and Chief Executive Officer, Company Secretary)
Appointed Director 28 October 2009. Appointed Chief Executive Officer 30 January 2009. Previously Chief Financial Officer from February 2008. Chartered Accountant with previous senior appointments which include Chief Financial Officer for AAPT Mobile (Cellular One).

Interests in the shares and options of the company

As at the date of this report, the interests of the directors in the shares and options of Cellnet Ltd were:

	Number of ordinary shares	Number of restricted shares	Number of options
A. Beard	-	-	-
M. Brookman	3,851,943	-	-
S. Harrison	702,917	-	-
S. Smith	-	2,000,000	-

Company Secretary

Mr D Mackenzie, FCA
Appointed 6 October 2005. He is a Fellow of the Institute of Chartered Accountants. Mr Mackenzie has had experience in Chartered Accounting firms, held senior positions with public companies involved in the rural and manufacturing industries and since 1993 he has provided corporate services predominantly to public companies involved in manufacturing, mining, information technology and rural operations.

Directors' report (continued)

Principal Activities

The principal activities during the year of the entities within the consolidated entity were:

- Distribution and fulfilment services to the mobile telecommunications and retail industries in Australia and New Zealand.
- Distribution of end of life and obsolete products via on-line sales.

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

Operating and Financial Review

Results for the period

The significant turnaround of $7.9m net profit from the prior period reflects the substantial work completed in restructuring the operations of the Company and refocusing the business where returns can be maximized.

Revenue has increased by 9.2% if the revenue in the prior period relating to the finalization of the Telecom New Zealand handset distribution business is excluded. This increase in revenue, together with a change in sales mix and a more efficient supply chain has seen gross profit increase by $3.9m or 31% over the prior period. Combined with overheads decreasing by $2.87m (16%) and a lower financing cost of $0.94m from the prior period, net profit before tax from continuing operations has increased by $7.9m.

Expanding our quality product offering and the efficient utilisation of capacity available to us continues to be a focus going forward.

Although approximately $1 million has been utilised in the share buy back program, the Company is debt free and cash reserves remain strong at over $20 million. The Board continues to explore potential opportunities and, until these have been exhausted, is of the view that the excess cash be retained by the Company. The Company is well placed for a potential acquisition or corporate transaction.

Significant changes in the state of affairs

There have been no acquisitions or disposals of business entities or operations in the current year.

In the previous year the Company divested itself of the IT distribution segment of its operations.

Approximately $1m has been utilized in the shareholder approved share buy back program.

Directors' report (continued)

Strategy and future performance

The operating results of Cellnet are constantly monitored and reviewed and opportunities to improve performance constantly evaluated. The Board believes the strategy set in place is the correct one and that the continuing operations will provide a return on funds invested in line with peers in the industry.

The utilisation of cash realised from the discontinued segments of the business continues to be under review and shareholders will be updated as appropriate. As previously announced, the Board has been looking at various potential investments and will continue to do so as well as other options available to the Company.

Events subsequent to reporting date

In the interval between the end of the financial year and the date of this report there has not been any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Likely developments

As explained above in respect of strategy and future performance, the consolidated entity is constantly reviewing the strategic value inherent in the business. In conjunction with this, the consolidated entity will continue to pursue its trading activities to further improve on operational aspects to produce the most beneficial long-term results for the shareholders of the Company.

Indemnification and insurance of officers

Indemnification

The Company has also agreed to indemnify the current and former Directors and some officers of its controlled entities for all liabilities to another person, other than the Company or a related body corporate that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

Insurance premiums have been paid in respect of Directors' and Officers' Liability Insurance contracts. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of Directors' and Officers' liability insurance as such disclosure is prohibited under the terms of the contract.

Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

		Meetings of Committees	
	Board	**Audit & Risk Mgmt**	**Remuneration**
Number of meetings held:	8	2	1
Number of meetings attended:			
A. Beard	8	2	1
M. Brookman	8	2	1
S. Harrison	8	2	1
S. Smith	6	1	1

All directors were eligible to attend all meetings held, except for S. Smith who was eligible to attend six board meetings and one audit and risk management meeting.

Directors' report (continued)

Committee membership

As at the date of this report the Company had an Audit & Risk Management Committee and a Remuneration Committee.
Members acting on the committee of the Board during the year were:

Audit & Risk Management
M. Brookman (Chairman)
A. Beard
S. Harrison
S. Smith

Remuneration Committee
M. Brookman (Chairman)
A. Beard
S. Harrison
S. Smith

Non-audit services

The following non-audit services were provided by the entity's current auditor, Ernst & Young during the year. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	Consolidated	
	2010 **$**	**2009** **$**
Tax related services	8,604	-
Assurance related and due diligence services (Ernst & Young)	-	150,000
	8,604	150,000

Rounding

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Auditor's independence declaration

The Auditor's independence declaration is set out on page 8 and forms part of the Directors' report for the financial year ended 30 June 2010.

Auditors Independence Declaration

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Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001
Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

Auditor's Independence Declaration to the Directors of Cellnet Group Limited

In relation to our audit of the financial report of Cellnet Group Limited for the financial year ended 30 June 2010, 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

Winna Brown

Winna Brown
Partner
24 August 2010

Remuneration Report (audited)

Remuneration Committee

This remuneration report for the year ended 30 June 2010 outlines the remuneration arrangements of the consolidated entity in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308 (3C) of the Act. The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Consolidated Entity receiving the highest remuneration.

1. Remuneration Structure

Remuneration levels for key management personnel are competitively set to attract and retain appropriately qualified and experienced Executives. The Board as necessary obtains independent advice on the appropriateness of remuneration packages of both the Company and consolidated entity given trends in comparative companies both locally and internationally and the objectives of the Company's remuneration strategy.

Non-Executive Directors receive a fixed fee for services.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control performance;
- the consolidated entity's performance including:
  - the consolidated entity's earnings; and
  - the growth in share price and delivering of constant returns on shareholder wealth; and
- the amount of incentives within each key management person's remuneration.

Remuneration packages include a mix of fixed and variable remuneration including short and long-term performance-based incentives.

1.1 Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any fringe benefits tax charges related to employee benefits including motor vehicles) as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Board.

Directors' report (continued)

Remuneration Report (Audited)(continued)

The processes adopted seek to consider performance across a wide spectrum of the business of the consolidated entity. As necessary, reliance is placed on external sources to provide analysis and advice to ensure the remuneration is competitive. Senior Executive's remuneration is also reviewed on promotion.

1.2 Performance-linked remuneration

Performance-linked remuneration includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash. A long-term incentive (LTI) plan is in the process of being considered. In the past the LTI had been provided as shares or options over ordinary shares of the Company under the rules of the Employee Share Option Plan (see Note 17(a) to the financial statements).

1.3 Short-term incentive bonus

Each year the Board and CEO set the key performance indicators (KPIs) for the key management personnel and the Board sets the KPI's for the CEO. The KPIs generally include measures relating to the consolidated entity, and the individual, and include a combination of financial and project related targets. The measures are chosen as they directly align the individual's reward to the KPIs of the consolidated entity and to its strategy and performance.

For the year ended 30 June 2010 the financial performance objectives primarily related to working capital management and improving the financial performance of the business. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes.

At the end of the financial year the Board assesses the actual performance of the consolidated entity and individual against the KPI's set at the beginning of the financial year. A percentage of the pre-determined maximum amount is awarded depending on results, between 0 and 100 % for reaching target performance for non-financial objectives, and uncapped beyond 100% for stretch performance beyond the target in respect of financial performance objectives. No bonus is awarded where performance falls below the minimum.

In the current year, in respect of the financial performance objective, the EBITDA performance of the operations was the key focus area and this target was not achieved. In respect of the other financial objectives, including profit after tax, the achievement levels were not achieved whilst non-financial objectives were partially achieved.

The Board approves the cash incentive to be paid to senior managers. This method of assessment was chosen as it provides the Board with an objective assessment of the individual's performance.

1.4 Long-term incentives

Performance Share Rights Plan

The Board had established a Performance Share Rights Plan which is designed to provide incentives to the key management personnel of the consolidated entity. The plan was approved by shareholders at the 18 November 2005 Annual General Meeting and the last grant was made 1 July 2006. All remaining rights that were issued under this plan expired during the 30 June 2009 year.

Directors' report (continued)

Remuneration Report (Audited)(continued)

1.4 Long-term incentives (continued)

Executive Share Option Plan

The Board established an Executive Share Option Plan which is designed to provide incentives to the Executives of the consolidated entity. The plan was approved by shareholders at the 18 December 2007 Annual General Meeting.

Under the plan the Board has the discretion to issue options to Executives as long as the issue does not result in the Executive owning or controlling the exercise of voting power attached to 5% or more of all shares then on issue. Each option is convertible to one ordinary share. The exercise price of the options is determined by the Board.

The rules governing the operation of the plan may be amended, waived or modified, at any time by resolution of the Board provided there is no reduction of rights to Executives in the plan. If an amendment reduces the rights of Executives in the plan, it requires written consent of three-quarters of affected Executives.

The plan may be terminated or suspended at any time by a resolution of the Board, provided the termination or suspension does not materially adversely affect the rights of persons holding shares issued under the plan at that time.

No options were issued in the current year (2009: nil) and there are no options currently on issue.

Long Term Incentive Plan

The Board established a Long Term Incentive Plan which is designed to provide incentives to the Executives of the consolidated entity. The plan was approved by shareholders at the 18 December 2007 Annual General Meeting.

The purpose and rules of the plan are the same as the Executive Share Option Plan described above, except that there is no prohibition on issuing shares if it would result in an Executive owning (legally or beneficially) or controlling the exercise of voting power attached to 5% or more of all shares then on issue.

2,000,000 shares were issued in the current year as approved at the AGM held in October 2009 (2009: nil).

1.5 Short-term and long-term incentive structure

The Board considers that the above performance-linked remuneration structure is appropriate at this time. It provides both short-term focus on operating performance and longer term focus on share price growth.

1.6 Consequences of performance on shareholder wealth

In considering the consolidated entity's performance and benefits for shareholder wealth, the Board has regard to the following indices in respect of the current financial year and the previous four financial years.

	2010	2009	2008	2007	2006
Net profit attributable to equity holders of the Company	$1,472,000	($16,288,000)	($4,702,000)	$5,887,000	$1,568,000
Dividends paid	-	-	-	$1,031,000	-
Change in share price	$0.05	($0.025)	($0.65)	($0.21)*	($0.15)
Working Capital days at year end	46.0	18.0	43.3**	60.8	66.3
Cash flow	$557,000	$10,435,000	$14,105,000	($4,058,000)	$33,105,000

* Mercury Mobility Limited was demerged from the Consolidated entity during the 2007 year which resulted in a reduction in Cellnet's share price. Mercury Mobility Limited was subsequently listed and had a share price of 4.0 cents at the date of this report.

** As disclosed in 2009 Annual Financial Report, the 2007 cash and trade receivables were corrected in the previous reporting period. This had an impact on the trade receivables which have been restated to reflect the correct position. The working capital days at year end have been recalculated accordingly to reflect the restated position.

Improving the performance of the operations was the main financial performance targets in setting the financial year 2010 short-term incentive.

Directors' report (continued)

Remuneration Report (Audited)(continued)

1.7 Other benefits

During the current and prior year, there were no non-cash bonuses or benefits paid to key management personnel.

1.8 Service contracts

It is the consolidated entity's policy that service contracts for key management personnel are unlimited in term but capable of termination on no more than 6 months' notice and that the consolidated entity retains the right to terminate the contract immediately, by making payment of up to 6 months' pay in lieu of notice.

The service contract outlines the components of remuneration paid to the key management person but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior Executive and any changes required to meet the principles of the remuneration policy.

At 30 June 2009, Stuart Smith, the Chief Executive Officer, has a contract of employment dated 19 December 2007, as subsequently varied, with the Company that provides that: at any time the service contract can be terminated by either party providing 2 months' notice; that the Company is able make a payment in lieu of notice equal to 2 months total earnings; there is no entitlement to termination payment in the event of removal for misconduct. Should his position become redundant he is entitled to a payment of 6 months salary in addition to the notice period.

1.8.1 Non-Executive Directors

Total remuneration for all non-Executive Directors, last voted upon by shareholders at the 1999 AGM, is not to exceed $300,000 per annum.

The Chairman's base fee is $54,500 per annum and non-Executive Directors' base fees are presently $50,000 per annum. Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main Board activities and membership of the Audit and Risk Management committee.

The Board does not have a retirement plan or scheme in place for Directors other than statutory superannuation which is paid in addition to the above fees.

1.8.2 Executive Directors

Total base fees for all Executive Directors at 30 June 2010 are not to exceed $400,000 per annum. Directors' fees cover all main Board activities and membership of the Audit and Risk Management committee.

2. Directors and executive officers

2.1 Individual directors and executive officers disclosures

(i) Directors

A. Beard	Chairman (non-executive)
M. Brookman	Director (non-executive)
S. Harrison	Director (non-executive) – resigned effective 31 July 2010
S. Smith	Chief Executive Officer

(ii) Executives

J. Phua	General Manager Product Development & Supply Chain
B. Watts	Logistics Manager
M. Wallace	General Manager Retail Sales
E. Schillinger	General Manager Memory Sales
C. Barnes	Finance Manager

Directors' report (continued)

Remuneration Report (Audited)(continued)

2.2 Directors' and Executive officers' remuneration (Company and Consolidated)

Remuneration of key management personnel and the five highest paid executives of the Company and the consolidated entity are as follows:

		Short-term				*Post Employment*	*Long-term benefits*		*Share-based payments(B)*		*% performance related*	*% STI forfeited*
	Year	*Salary & fees $*	*STI cash bonus(A) $*	*Motor Vehicle allowances $*	*$*	*Superannuation benefits $*		*Long Service Leave $*	*$*	*Total $*		
Non-executive Directors												
Mr A Beard	2010	54,500	-	-	-		-			54,500		-
	2009	54,500	-	-	-	-	-	-	-	54,500		-
Mr S Harrison	2010	50,000	-	-	-	-	-	-	-	50,000		-
(Resigned 31.07.10)	2009	233,333	-	-	-	-	-	-	-	233,333		-
Mr M Brookman	2010	50,000	-	-	-	-		-	125,000	175,000		
	2009	-	-	-	-	-	-	-	124,829	124,829		-
Total non-executive directors	2010	154,500	-	-	-	-	-	-	125,000	279,500		-
	2009	287,833	-	-	-	-	-	-	124,829	412,662		-
Executive Director												
Mr S Smith	2010	250,000	-	-	-	16,336	-	-	53,110	319,446	-	-
(Appointed October 2009)	2009	219,166	143,880	-	-	15,619	-	-	-	378,665	37.99	0.00%

Directors' report (continued)

Remuneration report (Audited)(continued)

2.2. Directors' and Executive officers' remuneration (Company and Consolidated) (continued)

		Short-term				Post Employment	Long-term benefits		Share-based payments (B)			
		Salary & fees $	STI cash bonus(A) $	Motor Vehicle allowances $	Non monetary benefits $	Superannuation benefits $	Cash Incentives $	Long Service Leave $	$	Total $	% performance related	% STI forfeited
Other key management personnel												
J. Phua	2010	133,440	42,500	-	-	15,716	-	-	-	191,656	22.18	15.00%
	2009	128,440	113,976	-	-	13,198	-	-	-	255,614	44.59	6.00%
B. Watts	2010	122,000	17,000	10,000	-	13,410	-	-	-	162,410	10.47	15.00%
	2009	116,416	8,750	14,750	-	11,843	-	-	-	151,759	5.77	31.00%
M. Wallace	2010	140,000	53,252	-	-	15,765	-	-	-	209,017	25.48	15.00%
	2009	128,333	21,599	-	-	12,894	-	-	-	162,826	13.27	18.00%
E. Schillinger	2010	104,596	9,829	15,000	-	11,648	-	-	-	141,073	6.97	28.00%
	2009	104,583	17,243	15,000	-	12,314	-	-	-	149,140	11.56	1.00%
C. Barnes	2010	101,250	19,375	-	-	10,856	-	-	-	131,481	14.74	15.00%
	2009	93,750	21,666	-	-	9,668	-	-	-	125,084	17.32	3.00%
Total executive and KMP	2010	851,286	141,956	25,000	-	83,731	-	-	53,110	1,155,083	12.29	
	2009	790,688	327,114	29,750		75,536	-	-	-	1,223,088	26.74	
Totals	2010	1,005,786	141,956	25,000	-	83,731	-	-	178,110	1,434,583	9.89	
	2009	1,078,521	327,114	29,750	-	75,536	-	-	124,829	1,635,750	20.00	

Directors' report (continued)
Remuneration report (Audited)(continued)

2. Notes in relation to the table of Directors' and Executive officers remuneration

A. The KPI's determining the short-term incentive bonuses during the 30 June 2010 financial year related to both financial (EBITDA) and non financial (strategic outcomes) targets using the criteria set out on page 10.

B. On 28 October 2009, 2,000,000 restricted shares were granted to the Chief Executive Officer. The terms and conditions attached to the shares are:

- Granted for nil consideration;
- Issue price is $0.35 per share payable on vesting in 3 years;
- The Company will provide the Chief Executive Officer with financial assistance to acquire the shares;
- The Company only has recourse to the shares for repayment of the loan. Repayment of the loan is non-recourse to the Chief Executive Officer.

2.1 Details of performance related remuneration

Details of the consolidated entity's policy in relation to the proportion of remuneration that is performance related is discussed on page 10.

3. Equity instruments

All performance rights refer to rights that will deliver an ordinary Cellnet Group Limited share (at no cost) but only if the performance hurdle in relation to that performance right is met. All options refer to options over ordinary shares of Cellnet Group Limited, which are exercisable on a one-for-one basis under the Employee Share Option Plan.

3.1 Performance rights over equity instruments granted as remuneration

No Directors or Executives were granted performance rights during the current year.

No Directors or Executives were granted performance rights during the prior year.

Performance rights in relation to which the performance hurdle was not met have lapsed. Performance rights lapsed where the key management personnel cease employment with the consolidated entity other than on retirement, redundancy, death or total and permanent disablement. However, at the discretion of the Board, performance rights may vest on a pro-rata basis, subject to performance testing, in the event of retirement, redundancy, death or total and permanent disablement prior to the end of the performance period.

All performance rights held by key management personnel and all shares held in the plan for key management personnel after satisfaction of the performance hurdles will be forfeited if the Board determines that the key management person acted fraudulently or dishonestly or is in serious breach of duty to the Company or in the Board's reasonable opinion has brought the Company into disrepute.

Details of the performance criteria are included in the long-term incentives discussion on page 9. Further details regarding the Performance Share Rights Plan are provided in Note 17 to the financial statements.

3.2 Options over equity instruments granted as remuneration

No options were issued during the period and all options over shares issued under the Employee Share Option Plan have now expired.

Directors' report (continued)

Remuneration Report (Audited)(continued)

3.3 Exercise of options granted as remuneration

During the reporting period, no shares were issued on the exercise of options previously granted as remuneration.

3.4 Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as remuneration to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

This report is made with a resolution of the Directors:

____
Alexander Beard
Chairman

Signed at Brisbane on 24 August 2010

Statement of financial position

As at 30 June 2010

	Note	Consolidated 2010 $'000	2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	20,830	20,399
Trade and other receivables	10	10,372	11,516
Inventories	11	5,293	4,858
Income tax receivable	12	98	284
		36,593	37,057
Current assets held as part of discontinued operations			
Trade and other receivables	10,23	169	10,472
Inventories	11,23	51	1,907
		220	12,379
Total current assets		36,813	49,436
Non-current assets			
Deferred tax assets		2,667	2,690
Property, plant and equipment	13	1,789	2,363
Total non-current assets		4,456	5,053
TOTAL ASSETS		41,269	54,489
LIABILITIES			
Current liabilities			
Trade and other payables	15	7,673	11,556
Provisions	16	502	739
		8,175	12,295
Current liabilities held as part of discontinued operations			
Trade and other payables	15, 23	165	9,932
Total current liabilities		8,340	22,227
Non-current liabilities			
Provisions	16	272	279
Total non-current liabilities		272	279
TOTAL LIABILITIES		8,612	22,506
NET ASSETS		32,657	31,983
EQUITY			
Issued capital		41,993	42,849
Reserves		769	711
Retained earnings		(10,105)	(11,577)
TOTAL EQUITY		32,657	31,983

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of comprehensive income

For the year ended 30 June 2010

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Continuing operations			
Sales of goods		73,823	85,497
Rendering of services		1,443	572
Other revenue	5	870	600
Revenue		76,136	86,669
Cost of sales	6(e)	(59,966)	(74,356)
Gross Profit		16,170	12,313
Distribution expenses		(2,025)	(2,216)
Sales and marketing expenses		(4,552)	(5,272)
Administrative expenses		(7,577)	(8,650)
Bad debts expenses		(52)	(237)
Other expenses	6(a)	(849)	(1,520)
Share in loss of a joint venture		-	(33)
Financial expenses	6(b)	-	(942)
Profit/(loss) from continuing operations before income tax		1,115	(6,557)
Income tax benefit / (expense)	7	40	(118)
Profit/(loss) from continuing operations after income tax		1,155	(6,675)
Discontinued operations			
Profit / (loss) from discontinued operations after income tax	23	317	(9,613)
Net profit / (loss) for the period		1,472	(16,288)
Other comprehensive income			
Foreign currency translation		(120)	860
Total comprehensive income for the period		1,352	(15,428)
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings/(loss) per share	8	$0.02	($0.09)
Diluted earnings/(loss) per share	8	$0.02	($0.09)
Earnings per share for profit attributable to the ordinary equity holders of the Company			
Basic earnings/(loss) per share	8	$0.02	($0.21)
Diluted earnings/(loss) per share	8	$0.02	($0.21)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June 2010

	Consolidated					
	Share capital	Reserve for own shares	Translation reserve	Share based Payment reserve	Retained earnings	Total equity
	$000	$000	$000	$000	$000	$000
At 1 July 2009	42,849	(25)	305	431	(11,577)	31,983
Profit for the period					1,472	1,472
Foreign currency translation	-	-	(120)	-	-	(120)
Total comprehensive income for the period	-	-	(120)	-	1,472	1,352
Share buy-back	(856)	-	-	-	-	(856)
Share based payments	-	-	-	178	-	178
Balance as at 30 June 2010	41,993	(25)	185	609	(10,105)	32,657
At 1 July 2008	42,849	(516)	(555)	306	5,639	47,723
Profit for the period	-	-	-	-	(16,288)	(16,288)
Foreign currency translation	-	-	860	-	-	860
Total comprehensive income for the period	-	-	860	-	(16,288)	(15,428)
Share buy-back	-	-	-	-	-	-
Share based payments	-	491	-	125	(928)	(312)
Balance as at 30 June 2009	42,849	(25)	305	431	(11,577)	31,983

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

Statement of cash flows

For the year ended 30 June 2010

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		96,458	255,291
Payments to suppliers and employees (inclusive of GST)		(96,023)	(234,287)
Interest paid		-	(1,259)
Net income taxes received / (paid)		249	(8)
Net cash flows from operating activities		684	19,737
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		44	-
Interest received	5	870	1,054
Acquisition of property, plant and equipment	13	(185)	(345)
Net cash flows from/(used in) investing activities		729	709
Cash flows from financing activities			
Share buy back	22	(856)	-
Repayment of borrowings		-	(10,000)
Repayment of finance lease liabilities		-	(11)
Net cash flows from/(used in) financing activities		(856)	(10,011)
Net increase/(decrease) in cash and cash equivalents		557	10,435
Net foreign exchange differences		(126)	(520)
Cash and cash equivalents at beginning of period		20,399	10,484
Cash and cash equivalents at end of period		20,830	20,399

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

Notes to the Financial Statements

For the year ended 30 June 2010

1. Corporate Information

Cellnet Group Limited (the 'Company') is a company limited by shares and incorporated in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2010 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity'). The financial statements of the subsidiaries are prepared for the same reporting period as the parent company.

The financial report was authorised for issue by the Directors on 24th August 2010

The nature of the operations and principal activities of the consolidated entity are described in the director's report.

2. Significant accounting policies

Basis of preparation

The financial report is a general purpose financial report.

The financial report is prepared on the historical cost basis and is presented in Australian dollars.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in 2(u).

(a) Compliance with IFRS

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

(b) New Accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:
The consolidated entity has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009:

- AASB 7 Financial Instruments: Disclosures effective 1 July 2009
- AASB 8 Operating Segments effective 1 July 2009
- AASB 101 Presentation of Financial Statements (revised 2007) effective 1 July 2009
- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations [AASB 2] effective 1 July 2009
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 July 2009
- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 July 2009

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the consolidated entity, its impact is described below:

Notes to the Financial Statements

For the year ended 30 June 2010

2. Significant accounting policies (continued)

(b) New Accounting Standards and Interpretations (continued)

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The consolidated entity has adopted the approach of reporting operating segments based on the manner in which products are sold. This has led to the disclosure of a new reporting segment 'on-line sales'. The financial information relating to this operating segment was previously disclosed in the 'retail sales' operating segment.

AASB 101 Presentation of Financial Statements

The revised standard prescribes a statement of comprehensive income form part of the annual financial statements. The consolidated entity has adopted this.

(ii) Accounting Standards and Interpretations issued but not yet effective

Several Australian Accounting Standards and Interpretations have been recently issued or amended but are not yet effective and have not been adopted by the consolidated entity. The following are the relevant amendments that are applicable to the consolidated entity:

1. AASB 9 – Financial Instruments.
2. AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.
3. AASB 2009-11 'Amendments to Accounting Standards Arising From AASB 9'.

Other than reduction of some disclosures in respect of financial instruments, the adoption of these amendments will have no material impact on the reporting of the consolidated entity.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Cellnet Group Ltd and its subsidiaries (as outlined in note 24 as at and for the period ended 30 June each year (the Group). Interests in associates are equity accounted and are not part of the consolidated entity.

Subsidiaries are all those entities over with the consolidated Group has the power to govern the financial operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. 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.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(d) Foreign currency

(i) Functional and presentation currency

Both the functional and presentation currency of Cellnet Group Limited and its Australian subsidiaries are Australian dollars ($). The New Zealand subsidiary's functional currency is New Zealand dollars which is translated to presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to Australian dollars at the foreign exchange rate ruling at reporting date. Foreign exchange differences arising on translation are recognised in net income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Notes to the Financial Statements

For the year ended 30 June 2010

2. Significant accounting policies (continued)

(iii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at foreign exchange rates ruling at the balance date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity

(e) Interest in a jointly controlled operation

The consolidated entity had an interest in a joint venture that is a jointly controlled operation. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The interest in the joint venture is accounted for in the consolidated financial statements using the equity method of accounting and is carried at cost by the Company. Under the equity method, the consolidated entity's share of the results of the joint venture entity is recognised in net income, and the share of movements in reserves is recognised in the statement of financial position.

(f) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (k)).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Lease payments are accounted for as described in accounting policy (r).

(iii) Depreciation

With the exception of freehold land depreciation is charged to net income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

• Buildings	40 years
• Leasehold improvements	3⅓ - 40 years
• Plant and equipment	2½ - 10 years
• Leased plant and equipment	4 - 5 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(iv) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(g) Intangible assets

(i) Goodwill

Business combinations

Subsequent to 1 July 2009

Goodwill acquired in a business combination in initially measured at cost of the business combinations being the excess of the consideration transferred over the fair value of the consolidated entity's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit of loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

2. Significant accounting policies (continued)

(g) Intangible assets (continued)

(ii) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (k)).

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation

Amortisation is charged to net income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance date. Other intangible assets are amortised from the date they are available for use over their estimated useful lives.

(h) Trade and other receivables

Trade, loans and other receivables are stated at their amortised cost less impairment losses. Collectability of trade receivables is reviewed on an ongoing basis at a customer level. Individual debts that are known to be uncollectable are written off when identified. An impairment provision is recognised when there is objective evidence that the consolidated entity will not be able to collect the receivable. Debts of 120 days or more are considered as objective evidence of impairment and a provision of 80% is provided. For any debts that are passed onto the consolidated entities solicitors for collection a provision of 100% is provided.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is calculated using the average cost method and includes direct and allocated costs incurred in acquiring the inventories and bringing them to their present location and condition. Provision is recognised when there is objective evidence that the consolidated entity will not be able to sell the inventory at normal reseller pricing. Inventories of 120 days are considered as objective evidence that provision is required of 50% of inventory value. Inventories of non-genuine product of 180 days are considered as objective evidence that provision is required of 75% of inventory value. For genuine product aged 180 days a provision of 50% still applies. When inventories are 360 days or older the consolidated entity considers that objective evidence exists that a provision is required for 100% of the carrying value.

(j) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise of cash at bank and in hand and short term deposits with a maturity of 60 days or less that are readily convertible to known amounts of cash and which are subject to an insignificant risks of change in values.

(k) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy (i)), trade and other receivables (see accounting policy (h)) and deferred tax assets (see accounting policy (s)), are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy (k)(i)).

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance date.

2. Significant accounting policies (continued)

(k) Impairment (continued)

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in net income, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through net income.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

(i) Calculation of recoverable amount

The recoverable amount of assets (apart from receivables, inventory, and deferred tax) is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- the consolidated entity has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

2. Significant accounting policies (continued)

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value of the consideration received less related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in net income over the period of the borrowings on an effective interest basis.

(n) Provisions and employee benefits

Provisions are recognised when the consolidated entity 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 consolidated entity 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 net income 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 date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. 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.

Employee leave benefits

(i) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance date which have maturity dates approximating the terms of the consolidated entity's obligations.

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

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, and are calculated using undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers remuneration insurance and payroll tax. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

2. Significant accounting policies (continued)

(o) Share based payment transactions

The performance rights programme allows consolidated entity employees to acquire shares of the Company. The fair value of rights granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to rights over shares. The fair value of the rights granted is measured using a Monte Carlo simulation model utilising a Black-Scholes option-pricing model, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of rights that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(p) Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on average between 30 day and 45-day terms. They represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services.

(q) Revenue

Goods sold and services rendered

Revenue from the sale of goods is recognised in net income when the significant risks and rewards of ownership have been transferred to the customer. This transfer generally occurs when the goods are delivered to the customer.

Revenue from the provision of warehousing services to external parties is recognised as the service is provided.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

Interest income is recognised in net income as it accrues, using the effective interest method. Dividend income is recognised in net income on the date the entity’s right to receive payments is established. The interest expense component of finance lease payments is recognised in net income using the effective interest method.

(r) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in net income on a straight-line basis over the term of the lease. Lease incentives received are recognised in net income as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments

Finance leases, which transfer to the consolidated entity substantially all the risks and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in net income.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

2. Significant accounting policies (continued)

(s) Income tax

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 reporting date.

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable rights 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Capital gains tax, if applicable, is provided for in establishing period income tax expense when an asset is sold.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Cellnet Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses or unused tax credits of the subsidiaries are assumed by the head entity in the tax consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

2. Significant accounting policies (continued)

(s) Income tax (continued)

The Company recognises deferred tax assets arising from unused tax losses and unused tax credits of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses and unused tax credits as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

Nature of tax funding arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss or tax credit deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed. The inter-entity payable (receivable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

(t) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(u) Accounting estimates and judgements

Management discussed with the Audit and Risk Management Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

2. Significant accounting policies (continued)

(u) Accounting estimates and judgements (continued)

Impairment losses for trade receivables and stock on hand

Note 10 contains information about the assumptions and their risk factors relating to trade receivable impairment losses and Note 6(e) contains information about the stock on hand impairments losses and changes in the way the estimate was calculated.

Share based payments

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 is determined with the assistance of an external valuer using a binomial model. The related assumptions are detailed in note 17. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise temporary differences and recognised tax losses. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next three years together with future tax planning strategies. Where the Group has made a taxable loss in the current or preceding year, a tax asset is only recognised to the extent that there is convincing other evidence that sufficient taxable profit will be available against the recognised unused tax losses can be utilised.

(v) Discontinued operations

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is restated as if the operation had been discontinued from the start of the comparative period.

(w) Earnings per share

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. Potential ordinary shares shall be treated as dilutive when their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

(x) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entities chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Chief Executive Officer. Note 4 contains information on reportable segments.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

3. Financial risk management objectives and policies

The consolidated entity's principal financial instruments comprise receivables, payables, cash and short-term deposits.

Risk Exposures and Responses

The consolidated entity manages its exposure to key financial risks, including interest and currency risk in accordance with the consolidated entity's financial risk management policy. The objective of the policy is to support the delivery of the consolidated entity's financial targes whilst protecting future financial security.

The consolidated entity enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the consolidated entity's operations. The main risks arising from the consolidated entity's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The consolidated entity uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessment of market forecasts for interest rate and foreign exchange prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the using future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Audit & Risk Management Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for forward currency contracts, credit allowances and future cash flow forecast projections.

Interest rate risk

The consolidated entity's exposure to market interest rates relates solely to the consolidated entities short-term cash deposits. The amount of cash is disclosed in note 9.

At balance date, the consolidated entity had nil financial liabilities exposed to Australian and New Zealand variable interest rate risk.

	Consolidated	
	2010	**2009**
	$'000	**$'000**
Financial assets		
Cash and cash equivalents	20,830	20,399
	20,830	20,399

The consolidated entity constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative hedging positions and the mix of fixed and variable interest rates.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

3. Financial risk management objectives and policies (continued)

Risk Exposures and Responses (continued)

Interest rate risk (continued)

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 30 June 2010, if interest rates had moved as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit higher / (lower)		Other comprehensive income higher / (lower)	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Consolidated				
+1% (100 basis points)	28	203	-	-
-0.5% (50 basis points)	(14)	(102)	-	-

The movements in profit are due to higher / lower cash receipts from variable rate cash balances.

The assumed reasonably possible interest rate movements are based on an economic forecaster's expectations.

Foreign currency risk

The consolidated entity is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Australian dollars. The currencies giving rise to risk are primarily U.S dollars, Euros, and New Zealand dollars.

The consolidated entity enters into forward foreign exchange contracts to hedge certain anticipated purchase commitments denominated in foreign currencies (principally U.S dollars). The terms of these commitments are no more than 45 days. It is the consolidated entities policy not to enter into forward contracts until a firm commitment is in place.

The consolidated entity has a subsidiary based in New Zealand and all transactions for this subsidiary are denominated in New Zealand dollars.

In order to mitigate the U.S dollar foreign currency risk, the consolidated entity enters into U.S dollar forward contracts. Entering into forward foreign currency contracts minimises the risk of sharp fluctuations in foreign exchange rates and allows for better cash flow management in relation to paying international suppliers.

At balance date, the consolidated entity had the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	Consolidated	
	2010 $'000	2009 $'000
Financial assets		
Trade and other receivables	220	72
	220	72
Financial liabilities		
Trade and other payables	(3,251)	(2,797)
	(3,031)	(2,797)
Net exposure	(3,031)	(2,725)

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

3. Financial risk management objectives and policies (continued)

Risk Exposures and Responses (continued)

At 30 June 2010, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit higher / (lower)		Other comprehensive income higher / (lower)	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Consolidated				
AUD / USD +10% (2009: +10%)	355	17	-	-
AUD / USD -10% (2009: -10%)	(243)	(17)	-	-

Significant assumptions:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years historical movements.
- The reasonably possible movement was calculated by taking the USD spot rate as at balance date, moving the spot rate by the reasonably possible movements and the re-converting the USD into AUD with the 'new spot rate'. This methodology reflects the translation methodology undertaken by the consolidated entity.

Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of the consolidated entity is the carrying amount, net of any impairment losses. The consolidated entity mitigates this risk by adopting procedures whereby they only deal with creditworthy customers. Where there is evidence of credit risk, an impairment loss is recognised. The consolidated entity also insures all debtors through trade finance insurance. The insurance excess payable by the consolidated entity for a claim on the insurance is 15% of the insured value or $25,000, whichever is greater.

Liquidity risk

Liquidity risk arises from the financial liabilities of the consolidated entity and the consolidated entity's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The consolidated entities objective is to maintain a balance between continuity of at cash funding and short-term fixed cash deposits.

The consolidated entity manages its liquidity risk by monitoring the total cash inflows and outflows expected on a daily basis. Cellnet Group Ltd has established comprehensive risk reporting covering its Australian and New Zealand operations that reflect expectations of management of the expected settlement of financial assets and liabilities.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

3. Financial risk management objectives and policies (continued)

Risk Exposures and Responses (continued)

Maturity analysis of financial liabilities based on management's expectation

Consolidated	Note	2010 Total	2010 6 months or less	2010 6-12 months	2010 1-5 years	2010 More than 5 years	2009 Total	2009 6 months or less	2009 6-12 months	2009 1-5 years	2009 More than 5 years
Liquid financial assets											
Cash and cash equivalents	9	20,830	20,830	-	-	-	20,399	20,399	-	-	-
Trade and other receivables	10	10,541	10,541	-	-	-	21,988	21,988			
		31,371	31,371	-	-	-	42,387	42,387			
Financial liabilities											
Trade and other payables	15	(7,838)	(7,838)	-	-	-	(21,488)	(21,488)	-	-	-
		(7,838)	(7,838)	-	-	-	(21,488)	(21,488)	-	-	-
Net inflow/(outflow)		23,533	23,533	-	-	-	20,899	20,899	-	-	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

4. Operating segments

Identification of reportable segments

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and Managing Director (the chief operating decision maker) in assessing performance and in determining the allocation if resources.

The operating segments are identified by management based on the manner in which products are sold, whether retail customer or on-line sales. Discrete financial information about each of these operating businesses is reported to the Chief Executive Officer and Managing Director at least on a monthly basis.

Types of products and services

Retail sales

The Retail Sales business provides distribution and fulfilment services to the mobile telecommunications and retail industries in Australia and New Zealand. These services are provided through the Cellnet business which sells and distributes mobile phone accessories, retail product and flash memory.

On-line sales

The on-line sales business sells end of life and obsolete products exclusively on-line. The majority of these products are received on a consignment basis.

IT sales

The consolidated entity fully discontinued the IT operating segment of its business in the previous financial year. Since this business is discontinued it is not viewed as an operating segment. Results have been allocated to ‘unallocated items’ in the operating segment reporting.

Accounting policies and intersegment eliminations

The accounting policies used by the consolidated entity in reporting segments internally is the same as those contained in Note 2 to the accounts and in the prior period.

Major customers

The consolidated entity has no customers that account for greater than 10% of external revenue.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

4. Operating segments (continued)

	Retail sales	On-line sales	Unallocated items	Total
For the year ended 30 June 2010	**$'000**	**$'000**	**$'000**	**$'000**
Revenue				
Sales to external customers	72,688	1,135	-	73,823
Other revenues from external customers	1,443	-	-	1,443
Other revenue	870	-	-	870
Total segment revenue	75,001	1,135	-	76,136
Segment net operating profit after tax	1,729	(574)	-	1,155
Discontinued operations after income tax	317	-		317
Segment assets	37,750	852	2,667	41,269
Segment liabilities	7,612	1,000	-	8,612
Cash flow information				
Net cash flow from operating activities	1,361	(677)	-	684
Net cash flow from investing activities	729	-	-	729
Net cash flow from financing activities	(856)	-	-	(856)
For the year ended 30 June 2009				
Revenue				
Sales to external customers	80,499	4,998	-	85,497
Other revenues from external customers	572	-		572
Other revenue	600	-	-	600
Total segment revenue	81,671	4,998	-	86,669
Segment net operating profit after tax	(5,940)	(735)	-	(6,675)
Discontinued operations after income tax	(9,614)	-	-	(9,614)
Segment assets	50,267	1,532	2,690	54,489
Segment liabilities	21,454	1,052	-	22,506
Cash flow information				
Net cash flow from operating activities	7,625	(335)	-	19,737
Net cash flow from investing activities	709	-	-	709
Net cash flow from financing activities	(10,011)	-	-	(10,011)

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

5. Other revenue

	Consolidated	
	2010 $'000	2009 $'000
Interest	816	359
Net gain on foreign exchange	-	154
Other	54	87
	870	600

6. Expenses

	Consolidated	
	2010 $'000	2009 $'000
(a) Other expenses		
Depreciation	672	709
Amortisation of intangibles	-	131
Total depreciation and amortisation	672	840
Net loss on disposal of property, plant and equipment	3	2
Impairment loss on investments	-	102
Write-off of goodwill	-	576
Net foreign currency exchange loss	174	-
Total other expenses	849	1,520
(b) Finance costs		
Bank loans and overdrafts	-	942
Total finance costs	-	942
(c) Employee benefits expense		
Wages and salaries	7,297	9,092
Superannuation expense	592	577
Share based payment expense	178	125
Other employee benefits expense	419	285
	8,486	10,079
(d) Lease payments included in net income		
Minimum lease payments – operating lease	819	1,053
	819	1,053
(e) Cost of sales		
Cost of goods sold	59,133	72,253
Impairment of inventory included in cost of sales	833	2,103
	59,966	74,356

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

7. Income tax

		Consolidated	
		2010	2009
		$'000	$'000
(a)	**Income tax expense**		
	The major components of income tax are:		
	Recognised in net income		
	Current income tax		
	Current income tax charge	(555)	8
	Deferred income tax		
	Relating to origination and reversal of temporary differences	1,057	(1,241)
	(Recognition)/ derecognition of deferred tax asset relating to utilised foreign tax credits	(462)	1,241
	Total income tax expense reported in net income	40	8
(b)	**Numerical reconciliation between aggregate tax expense recognised in net income and tax expense calculated per the statutory income tax rate**		
	A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the consolidated entity's applicable income tax rate is as follows:		
	Accounting profit / (loss) before tax from continuing operations	1,155	(6,557)
	Profit / (loss) before tax from discontinuing operations	317	(9,613)
	Total accounting profit before income tax	1,472	(16,170)
	At the parent entities statutory income tax rate 30% (2009: 30%)	442	(4,851)
	Adjustments in respect of current income tax of previous years	(12)	-
	Non deductible write-down in value of intangibles	-	494
	Non deductible write-down in value of investments	-	31
	Entertainment	8	13
	(Recognition)/non recognition of tax losses	(398)	3,958
	Other	-	363
	Aggregate income tax expense	40	8
	Aggregate income tax expense is attributable to:		
	Continuing operations	40	118
	Discontinued operations	-	(110)
		40	8

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

7. Income tax (continued)

(c) Recognised deferred tax assets and liabilities

	Consolidated			
	2010 Current income tax	2010 Deferred income tax	2009 Current income tax	2009 Deferred income tax
Opening balance	284	2,690	1,557	2,687
Charged to income	63	(23)	(1,281)	3
Payments/ (refunds)	(249)	-	8	-
Closing balance	98	2,667	284	2,690
Tax expense in net income	-	40	(118)	-
Amounts recognised in the statement of financial position:				
Deferred tax asset		2,667		2,701
Deferred tax liability		-		(11)
		2,667		2,690
Deferred income tax at 30 June relates to the following:				
Deferred tax assets				
Property, plant and equipment		46		28
Intangibles		-		499
Provisions and other		757		1,463
Value of tax losses carried forward		1,864		711
		2,667		2,701
Deferred tax liabilities				
Leases		-		(11)
Net deferred tax asset		2,667		2,690

(d) Tax losses

The consolidated entity has Australian tax losses for which no deferred tax asset is recognised on the statement of financial position of $23,500,992 (2009: $24,314,000) which are available indefinitely for offset against future gains subject to meeting the relevant statutory tests.

The consolidated entity has recognised tax losses to the extent that forecasts suggest it is probable that sufficient taxable income will be earned to recoup the recognised losses.

Notes to the Financial Statements (continued)
For the year ended 30 June 2010

8. Earnings per share

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

(a) Earnings used in calculating earnings per share

	Consolidated	
	2010	**2009**
	$'000	**$'000**
For basic earnings per share:		
Profit / (loss) from continuing operations	1,155	(6,675)
Profit / (loss) from discontinued operations	317	(9,613)
Net profit / (loss) attributable to ordinary equity holders	1,472	(16,288)
For diluted earnings per share:		
Profit / (loss) from continuing operations	1,155	(6,675)
Profit / (loss) from discontinued operations	317	(9,613)
Net profit / (loss) attributable to ordinary equity holders	1,472	(16,288)

(b) Weighted average number of shares

	2010	**2009**
	'000	**'000**
Weighted average number of shares (basic) at 30 June	75,700	76,839
Weighted average number of shares adjusted for effect of dilution	75,700	76,839

Restricted shares are considered non-dilutive where the current share price is lower than the exercise price.

9. Current assets – cash and cash equivalents

	Consolidated	
	2010	**2009**
	$'000	**$'000**
Cash at bank and in hand	2,830	20,399
Short-term deposits	18,000	-
	20,830	20,399

10. Current assets – trade and other receivables

	Consolidated	
	2010	**2009**
	$'000	**$'000**
Trade receivables	11,067	23,291
Allowances for impairment loss (a)	(782)	(1,718)
	10,285	21,573
Other receivables and prepayments	222	378
Receivables due from related parties	34	37
Carrying amount of trade and other receivables	10,541	21,988

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

10. Current assets – trade and other receivables (continued)

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30 day terms. Trade receivables are insured through a debtors' insurance policy with QBE. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired and not recoverable within the terms of the insurance policy. An impairment loss of $52,000 (2009: $906,000) has been recognised by the consolidated entity. These amounts have been included in the bad debts expense item in net income.

Movements in the provision for impairment loss were as follows:

At 1 July	1,718	3,084
Charge for the year	52	912
Amounts written off	(988)	(2,278)
At 30 June	782	1,718

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

	Total Total	0 – 30 days $'000	31 – 60 days $'000	61 – 90 days PDNI* $'000	61 - 90 days CI* $'000	+ 91 days PDNI* $'000	+ 91 days CI* $'000
2010 Consolidated	11,067	9,526	465	159	-	135	782
2009 Consolidated	23,291	14,738	5,639	480	-	716	1,718

* Past due not impaired (PDNI)
Considered impaired (CI)

Receivables past due but not considered impaired are: Consolidated $135,000 (2009: $716,000). Payment terms on these amounts have not been re-negotiated however credit has been stopped until full payment is made. Each debtor has been directly contacted by debt recovery agents and the consolidated entity is satisfied that payment will be received in full.

11. Current assets - inventories

	Consolidated 2010 $'000	 2009 $'000
Stock on hand	6,300	8,720
Less: provision for obsolescence (see below)	(956)	(1,955)
Total inventories at the lower of cost and net realisable value	5,344	6,765
Carrying amount of inventories subject to retention of title clauses	-	983

(a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2010 totalled $54,455,000 (2009: $66,944,000) for the consolidated entity. This expense has been included in the cost of sales line item as a cost of inventories.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

12. Current assets – income tax receivable

The current tax asset for the consolidated entity of $98,000 (2009: $284,000) represents the amount of income taxes recoverable in respect of prior periods and that arise from the payment of tax in excess of the amounts due to the relevant tax authority.

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

Reconciliation of the carrying amounts at the beginning and end of the period.

	Consolidated				
	Buildings	Leasehold improvements	Plant & equipment	Plant & equipment under lease	Total
For the year ended 30 June 2010	$'000s	$'000s	$'000s	$'000s	$'000s
At 1 July 2009 net of accumulated depreciation and impairment	-	573	1,753	37	2,363
Additions	-	43	130	12	185
Disposals	-	-	(49)	(38)	(87)
Depreciation charge for the year	-	(205)	(465)	(2)	(672)
At 30 June 2010 net of accumulated depreciation and impairment	-	411	1,369	9	1,789
At 30 June 2010					
Cost or fair value	21	808	8,867	2,135	11,831
Accumulated depreciation and impairment	(21)	(397)	(7,498)	(2,126)	(10,042)
Net carrying amount	-	411	1,369	9	1,789
For the year ended 30 June 2009					
At 1 July 2008 net of accumulated depreciation and impairment	2	500	2,328	8	2,838
Additions	-	133	174	38	345
Disposals	-	51	(158)	(4)	(111)
Depreciation charge for the year	(2)	(111)	(591)	(5)	(709)
At 30 June 2009 net of accumulated depreciation and impairment	-	573	1,753	37	2,363
At 30 June 2009					
Cost or fair value	21	893	9,108	2,152	12,174
Accumulated depreciation and impairment	(21)	(320)	(7,355)	(2,115)	(9,811)
Net carrying amount	-	573	1,753	37	2,363

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

14. Non-current assets – intangible assets

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

	Consolidated		
	Goodwill $'000	Development costs* $'000	Total $'000
Year ended 30 June 2010			
At 1 July 2009 net of accumulated amortisation and impairment	-	-	-
Acquisitions	-	-	-
Impairment	-	-	-
At 30 June 2010 net of accumulated amortisation and impairment	-	-	-
At 30 June 2010			
Cost (gross carrying amount)	3,186	1,918	5,104
Accumulated amortisation and impairment	(3,186)	(1,918)	(5,104)
Net carrying amount	-	-	-
Year ended 30 June 2009			
At 1 July 2008 net of accumulated amortisation and impairment	3,126	976	4,102
Acquisitions	576	102	678
Impairment	(3,702)	(1,078)	(4,780)
At 30 June 2009 net of accumulated amortisation and impairment	-	-	-
At 30 June 2009			
Cost (gross carrying amount)	3,186	1,918	5,104
Accumulated amortisation and impairment	(3,186)	(1,918)	(5,104)
Net carrying amount	-	-	-

* These relate to development of website and systems – see accounting policy f.

Description of the consolidated entity's intangible assets and goodwill

(i) Development costs

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 3 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

During the prior financial year assets relating to operational computer software were deemed to be impaired due to the restructuring of the operations in New Zealand. The cost of this development in New Zealand of $572,000 has been written off. Software previously developed internally in Australia has been written off as the recoverable amount of the asset is less than carrying value and therefore an impairment loss has been recognised.

(ii) 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.

All goodwill has been impaired in prior years as a result of the discontinuation of the IT operations or a deemed recoverable value of nil for goodwill in the retail operations.

Notes to the Financial Statements (continued)
For the year ended 30 June 2010

15. Current and non-current liabilities - trade and other payables

	Consolidated	
	2010 $'000	2009 $'000
Current		
Trade payables	6,445	17,612
Other payables and accrued expenses	1,393	3,876
	7,838	21,488

* For terms and conditions relating to trade payables refer to Note 2(p).

16. Current and non-current - provisions

	Consolidated	
	2010 $'000	2009 $'000
Current		
Provision for fringe benefits tax	1	74
Liability for annual leave and employee provisions	501	665
Total current employee benefits	502	739
Non Current		
Liability for long-service leave	272	279
Total non-current employee benefits	272	279

(a) Nature and timing of provisions

Long service leave

Refer to Note 2(n)(i) for the relevant accounting policy and a discussion of the significant estimates and assumptions applied in the measurement of this provision.

17. Share based payments

(a) Performance rights

On 18 November 2005, shareholders of the Company approved a performance share rights plan.

Under the plan, performance rights are issued to key management personnel. The rights deliver ordinary shares to key management personnel (at no cost to the Executive) where the performance hurdle in relation to those performance rights is met. Where the performance hurdle is met, the Company will acquire the necessary shares on the stock market and allocate them to the key management person. Non-Executive Directors are not entitled to participate in the plan. The last rights were issued in 2006 and all expired during the 30 June 2009 year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

17. Share based payments (continued)

(b) Performance rights (continued)

Summary of performance rights

Details of the fair value of performance rights in relation to unissued ordinary shares and movements during the year are set out below.

The fair value of performance rights granted during the year was independently determined using a Monte Carlo simulation model utilising a Black-Scholes option pricing model framework that takes into account the term of the rights, the vesting and performance criteria, the non-tradeable nature of the rights, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share rights.

The amounts recognised in retained earnings of the Company and consolidated entity in relation to performance rights granted during the year are provided in Note 28, as are the amounts recognised in reserves in relation to share issues made to key management personnel under the plan.

Details of Performance rights

(i) 2010

Grant date	Performance rights granted	Number vested during 2010	Number forfeited during 2010	Number of rights at end of year		Expiry date	Year during which rights vest	Fair value per right ($)	Aggregate fair value ($)
				held	vested				
	-	-	-	-	-	-	-	-	-

(ii) 2009

Grant date	Performance rights granted	Number vested during 2009	Number forfeited during 2009	Number of rights at end of year		Expiry date	Year during which rights vest	Fair value per right ($)	Aggregate fair value ($)
				held	vested				
01/07/06	11,000	nil	11,000	nil	nil	30/06/09	2009	0.83	nil
01/07/06	16,498	nil	16,498	nil	nil	30/06/09	2009	0.77	nil
01/07/06	27,498	nil	27,498	nil	nil	30/06/09	2009	0.70	nil

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

17. Share based payments (continued)

(c) Employee share award plan

The initial issue of shares under the Employee Share Award Plan was transacted during September 2005.

Under the plan, Cellnet Group Limited shares may be issued to eligible employees of the consolidated entity at no cost, to assist in the retention and motivation of consolidated entity employees during the year. A maximum $1,000 in share value can be allocated to each eligible employee each year.

All Australian based permanent full-time employees of the consolidated entity who have been in 3 months or more continuous employment at 30 June each year are eligible to participate in the plan. The value of shares issued to each employee under the plan is dependant on length of service at 30 June, but cannot exceed $1,000 per employee per year. Directors of the consolidated entity are not eligible to participate in the plan.

Eligible employees must apply to participate in the plan each year. Whether an employee share award occurs each year is at the discretion of the Board of Directors, subject to the financial performance of the consolidated entity.

Employees who receive shares under the plan are unable to deal in the shares for 3 years from date of award, unless they leave the consolidated entity's employment, at which time the shares are restriction-free.

(i) Summary of employee share award

The fair value of the shares allocated is the weighted average Cellnet Group Limited share price for the period of five days up to and including the date of allocation. For the current year, no shares were allocated under the plan (2009: nil). Shares were last allocated under the plan on 14 September 2005.

The amount recognised in contributed equity of consolidated entity in relation to the allocation of shares to employees under the plan is set out in Note 17 (b).

(d) Employee bonus shares

No employee bonus shares were issued to employees during the current year or prior year.

The amount recognised in contributed equity of the Company and consolidated entity during the prior year in relation to bonuses is set out in Note 25.

(e) Executive share option plan

On 18 December 2007, shareholders of the Company approved an Executive share option plan that entitles Executives of the Company to purchase shares in the Company.

Under the plan the Board has the discretion to issue options to Executives as long as the issue does not result in the Executive owning or controlling the exercise of voting power attached to 5% or more of all shares then on issue.

Each option is convertible to one ordinary share. The exercise price of the options is determined by the Board.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

17. Share based payments (continued)

(e) Executive share option plan (continued)

All options expire:

- 10 years from the date the option was granted or 12 months after the death or total and permanent disablement of the Executive;
- At the Boards determination that the Executive has, in the Board's opinion, been dismissed or removed from office for a reason which entitles a company in the consolidated entity to dismiss the Executive without notice or has committed any act of fraud, or done any act which bring the consolidated entity into disrepute;
- The date on which the Executive ceases to be employed by any member of the consolidated entity (other than due to the occurrence of death or total and permanent disablement); or
- The surrender of the option by the Executive.

Upon the exercise of an option by an Executive, each share issued will rank equally with other shares of the Company.

The Company may offer to provide such financial assistance to a person in relation to an invitation to participate in the plan, as the Board may determine from time to time in its discretion.

The rules governing the operation of the plan may be amended, waived or modified, at any time by resolution of the Board provided there is no reduction of rights to Executives in the plan. If an amendment reduces the rights of Executives in the plan, it requires written consent of three-quarters of affected Executives.

The plan may be terminated or suspended at any time by a resolution of the Board, provided the termination or suspension does not materially adversely affect the rights of persons holding shares issued under the plan at that time.

2008 allocation

2,500 000 options were issued to Stephen Harrison on 18 January 2008. The theoretical value of the options was calculated as being $0.10 per option.

The Black & Scholes methodology was used to value the options. The valuation was based using the following assumptions:

- The risk free rate is 6.3% with a maturity date approximating that of the expiration period of the options;
- The underlying security price used for the purposes of this valuation is $0.52, which is the closing price of the shares as at 18 January 2008;
- For the purposes of the valuation, no future dividend payments have been forecast;
- The volatility of the Company's shares is 45.00% (based on a 4 year historical volatility); and
- For the purposes of the valuation it is assumed that the options will not be exercised any earlier than the expiry date.
- The exercise price was 70 cents.

17. Share based payments (continued)

(f) Long Term Incentive Plan

On 18 December 2007, shareholders of the Company approved a Long Term Incentive Plan that entitled Executives of the Company to purchase shares in the Company through a non-recourse loan.

The purpose and rules of the plan are the same as the Executive Share and Option Plan described above, except that there is no prohibition on issuing shares or options if it would result in an Executive owning (legally or beneficially) or controlling the exercise of voting power attached to 5% or more of all shares then on issue.

Nil options were granted in current year.

2008 allocation

2,500,000 shares were issued to Mel Brookman 18 January 2008. The shares were issued for $0.70 each. It was accounted for as an option. The theoretical value of the options was calculated as being $0.10 per option. Further terms and conditions were:

The Black & Scholes methodology was used to value the options. The valuation was based using the following assumptions:

- The risk free rate is 6.3% with a maturity date approximating that of the expiration period of the options;
- The underlying security price used for the purposes of this valuation is $0.52, which is the closing price of the shares as at 18 January 2008;
- For the purposes of the valuation, no future dividend payments have been forecast;
- The volatility of the Company's shares is 45.00% (based on a 4 year historical volatility); and
- The vesting period was determined to be the length of service, being three years.

2010 allocation

2,000,000 shares were issued to Stuart Smith 28 October 2009. The shares were issued for $0.35 each. It was accounted for as an option. The theoretical value of the options was calculated as being $0.1195 per option. Further terms and conditions were:

- The risk free rate is 5.31% with a maturity date approximating that of the expiration period of the options;
- The underlying security price used for the purposes of this valuation is $0.30, which is the closing price of the shares as at 28 October 2009;
- The volatility of the Company's shares is 60.00% (based on a 3 year historical volatility); and
- The vesting period was determined to be the length of service, being three years.

The Black & Scholes methodology was used to value the options. The valuation was based using the following assumptions:

Employee expenses

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Expense arising from 2,500,000 options granted to Mel Brookman on 18 January 2008		125	125
Expense arising from 2,000,000 shares granted to Stuart Smith on 18 October 2009		53	-
Total expense recognised as employee costs	6(c)	178	125

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

18. Business combination

Effective 1 January 2009 the consolidated entity acquired all of the shares in R&C Holdings Pty Ltd (RACS). Previously the consolidated entity owned only 50% which was acquired in the 2008 financial year and accounted for as a joint venture using the equity method. The carrying value of this investment at the date of acquisition was $637,777. The remaining 50% share was acquired for consideration of $1. RACS is a retail online auction house dealing primarily in consumer electronic and telecommunication products operating primarily on e-bay. In the six months to 30 June 2009 the subsidiary contributed a loss after tax of $673,000. If the acquisition had taken place on 1 July 2008, the loss for consolidated group would have been $33,000 greater.

The accounting for this acquisition for the 30 June 2009 year was performed on a provisional basis as at 30 June 2009 with all balances based on their carrying value as stated below. The finalised business combination accounting is as follows:

	Consolidated	
	Fair value at Acquisition date $'000	**Carrying value $'000**
Cash	430	430
Trade receivables	151	212
Inventory	73	187
Plant and equipment	206	206
Capitalised web development	-	61
	860	1,096
Trade payables	(695)	(695)
Employee entitlements	(52)	(52)
Other payables	(51)	(51)
	(798)	(798)
Fair value of identifiable net assets	62	
Goodwill arising on acquisition	576	
	638	
The cash inflow on acquisition was as follows:		
Net cash acquired with the subsidiary	430	
Cash paid	-	
Net consolidated cash inflow	430	

Consistent with the group accounting policy the goodwill arising on acquisition was assessed for impairment and as a result determined to be fully impaired. Accordingly the goodwill was written down to nil during the 30 June 2009 year. The 2009 statement of financial position has been restated to reflect the above changes.
The investment held by the parent was also impaired

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

19. Financial instruments

Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in n income. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of financial income and expenses (see Note 6).

Fair values

The fair values together with the carrying amounts shown in the statement of financial position are as follows:

Consolidated	Note	Carrying amount 2010 $'000	Fair value 2010 $'000	Carrying amount 2009 $'000	Fair value 2009 $'000
Cash and cash equivalents	9	20,830	20,830	20,399	20,399
Trade and other receivables	10	10,541	10,541	21,988	21,988
Trade and other payables	15	(7,838)	(7,838)	(21,488)	(21,488)
		23,533	23,533	20,899	20,899

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The market rates used vary depending on the value and nature of the equipment financed.

Trade and other receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

20. Commitments

(a) Operating leases

The consolidated entity has entered into commercial leases on office and warehouse facilities, and items of computer equipment. The leases typically run for a period of 1 to 7 years, with an option to renew the lease after that date. Lease payments generally comprise a base amount plus an incremental contingent rental which is based on movements in the Consumer Price Index.

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

	Consolidated 2010 $'000	Consolidated 2009 $'000
Less than one year	890	729
Between one and five years	279	1,173
	1,169	1,902

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

20. Commitments (continued)

(b) Finance Leases

Finance lease liabilities of the Company are payable as follows:

	Consolidated					
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	2010 $'000	2010 $'000	2010 $'000	2009 $'000	2009 $'000	2009 $'000
Less than one year	-	-	-	48	13	35
One to five years	-	-	-	-	-	-
	-	-	-	48	13	35

The consolidated entity leases plant and equipment under finance leases expiring from 1 to 4 years. At the end of the lease term, the Company has the option to purchase the equipment at a price deemed to be a bargain purchase option.

21. Contingencies

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	Consolidated	
	2010 $'000	2009 $'000
Contingent liabilities considered remote		
(i) The consolidated entity has provided bank guarantees in the normal course of business.	321	321
	321	321

22. Share buy back

The Company announced that it would commence an on-market share buy back program on 12 October 2009. The share buy back was initially for up to 10% of the issued capital of the Company. This was extended to buy back up to 20 million shares after approval from shareholders at the Annual General Meeting held 28 October 2009. As at 30 June 2010 cash of $856,148 had been consumed to re-purchase 2,836,594 shares.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

23. Discontinued operation

During the 2009 financial year a significant restructuring event commenced in October 2008 which saw the exit of the loss making IT business segment by ceasing to operate in this segment. This process was finalised in the 2010 financial year resulting in a profit of $317,000. The 2009 loss included a substantial write-down of intangibles and the provision for future costs such as property leases and debtor insurance that relate solely to the discontinued business segment.

Results of the discontinued operations for the year are presented below:	Note	Consolidated	
		2010 $'000	**2009 $'000**
Results of discontinued operation			
Revenue		1,623	110,547
Expenses		(1,306)	(120,270)
Results from operating activities		317	(9,723)
Income tax benefit		-	110
Results from operating activities, net of income tax		317	(9,613)
Profit (loss) for the period		317	(9,613)
Basic earnings per share		(0.00)	(0.13)
Diluted earnings per share		(0.00)	(0.13)
Major classes of assets and liabilities of the discontinued operation are presented below:			
Assets held for sale			
Trade and other receivables		169	10,472
Inventory		51	1,907
Assets attributable to discontinued operations		220	12,379
Liabilities held for sale			
Trade and other payables		(165)	(9,932)
Liabilities attributable to discontinued operations		(165)	(9,932)
Net assets attributable to discontinued operations		55	2,447
Cash flows from discontinued operation			
Net cash from operating activities		(750)	12,447
Net cash from investing activities		-	-
Net cash from (used in) discontinued operation		(750)	12,447

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

24. Related party disclosure

(a) Subsidiaries

The consolidated financial statements include the financial statements of Cellnet Group Ltd and the subsidiaries included in the following table:

Name	Country of Incorporation	% Equity interest 2010	% Equity interest 2009
Cellnet Group Ltd (Parent)	Australia	100	100
CDW Pty Ltd	Australia	100	100
Cellnet Ltd	New Zealand	100	100
Comms Plus Marketing Pty Ltd	Australia	100	100
Atchinson Pty Ltd	Australia	100	100
C&C Warehouse (Holdings) Pty Ltd	Australia	100	100
Printer Wholesalers Pty Ltd	Australia	100	100
Cassa Australia Pty Ltd	Australia	100	100
In2 Holdings Pty Ltd	Australia	100	100
VME Systems Pty Ltd	Australia	100	100
Michael Hornsby & Associates Pty Ltd	Australia	100	100
R&C Holdings Pty Ltd	Australia	100	100

25. Key management personnel

(a) Key management personnel remuneration

	Consolidated 2010 $	Consolidated 2009 $
Short-term employee benefits	1,172,742	1,435,385
Post-employment benefits	83,731	75,536
Share-based payment benefits	178,110	124,829
Total compensation	1,434,583	1,635,750

(b) Recognition of directors shares

On 28 October 2009, 2,000,000 restricted shares were granted to a Director. The terms and conditions attached to the shares are detail in note 17 (f).

(c) Performance rights over equity instruments granted as remuneration

There were no performance rights granted to any key management person during the 2010 financial year (2009: nil).

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

25. Key management personnel (continued)

(d) Shareholdings of key management personnel

The movement during the reporting period in the number of ordinary shares in Cellnet Group Limited held directly, indirectly or beneficially, by each key management person and their related parties, is as follows:

Directors / KMP	Held at 1 July 2009	Purchases	Other Acquisitions / Disposals	Sales	Held at 30 June 2010
S Harrison	1,702,917	-	-	(1,000,000)	702,917
M Brookman	6,851,943	-	(2,500,000)	(500,000)	3,851,943
S Smith	-	-	(A) 2,000,000	-	2,000,000
M Wallace	219		-	-	219

Directors / KMP	Held at 1 July 2008	Purchases	Other Acquisitions	Sales	Held at 30 June 2009
S Harrison	1,702,917	-	-	-	1,702,917
M Brookman	6,851,943	-	-	-	6,851,943
M Wallace	219	-	-	-	219

(A) Received under Long Term Incentive Plan on 28 October 2009 (Note 25 (b)).

(e) Other transactions and balances with key management personnel and their related parties

The following transactions occurred between key management personnel, or their related parties, and the Company or consolidated entity during the year. Where such transactions occurred, the terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis

The aggregate amounts recognised during the year relating to key management personnel (KMP) and their related parties were as follows:

KMP and their related parties	Transaction	*Note*	Consolidated 2010 $'000	Consolidated 2009 $'000
Mercury Mobility (Australia) Pty Ltd	Rendering of services and rental	(i)	77	72
Mercury Mobility (Australia) Pty Ltd	Sale of goods (post demerger)		-	11
Cru Group Pty Ltd	Sale of goods	(ii)	-	6
	Purchase of services		-	15

(i) Cellnet Group Limited earned administration fees, service fees and rent from Mercury Mobility (Australia) Pty Ltd, a company of which Mr Mel Brookman and Mr Sandy Beard are Directors, of $77,000 (2009: $72,000) post its demerger from the consolidated entity.

(ii) Cellnet Group Limited sold goods to Cru Group Pty Ltd, a company of which Mr Stephen Harrison and Mr Mel Brookman are influential shareholders. Cellnet Group Limited also purchased advertising services from Cru Group Pty Ltd in the normal course of business during the 2009 year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

26. Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

27. Restatement of comparatives

Prior year operating expenses have been restated due to misallocation between different expense classifications. There was approximately $2,800,000 incorrectly reallocated from consolidated administrative expenses to consolidated sales and marketing expenses. There was no net impact on the net loss or loss per share for the year ending 30 June 2009.

Other minor changes have also been made where necessary to reflect changes in presentation within the statement of comprehensive income. These changes have no net impact on the net loss or loss per share for the year ending 30 June 2009.

28. Parent entity information

(a) Information relating to Cellnet Ltd

	2010 $'000s	2009 $'000s
Current assets	33,113	43,423
Total assets	51,570	61,871
Current liabilities	29,528	31,164
Total liabilities	29,799	41,374
Issued capital	41,993	42,849
Retained earnings	(20,805)	(22,327)
Reserve for own shares	(26)	(26)
Reserve for share based payment	609	431
Total shareholders equity	21,771	22,732
Profit / (loss) of the parent entity after tax	1,965	(15,375)
Total comprehensive income of the parent entity	1,965	(15,375)

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

29. Contributed equity and reserves

(a) Share capital

	Consolidated	
	2010 No. of shares	2009 No. of shares
Ordinary shares on issue	76,839,094	76,839,094
Directors restricted shares cancelled*	(2,500,000)	-
Directors restricted shares issued*	2,000,000	-
Share buy back	(2,836,594)	-
On issue at 30 June	73,502,500	76,839,094
Ordinary shares		
Issued and fully paid	71,502,500	76,839,094

*Restricted shares are issued for legal purposes but not for accounting.

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

	Consolidated	
	2010 $'000s	2009 $'000s
Ordinary shares on issue	42,849	42,849
Share buy back	(856)	-
	41,993	42,849

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

(b) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

(c) Reserve for own shares

The reserve for own shares represents the cost of shares held by an equity remuneration plan that the consolidated entity is required to include in the financial report. At 30 June 2010 the consolidated entity held 107,110 of the Company's shares (2009: 107,110). This reserve will be reversed against share capital when the underlying shares are exercised under performance rights. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the consolidated entity's own equity instruments.

(e) Dividends

Nil dividends were recognised in the current financial year (2009: nil).

(f) Franking credits

	Consolidated	
	2010	2009
Dividend franking account		
30% franking credits available to shareholders of Cellnet Group Limited for subsequent financial years	4,280	4,280

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

29. Contributed equity (continued)

(f) Franking credits (continued)

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(i) franking debits that will arise from the refund of the current tax receivable;
(ii) franking debits that will arise from the payment of dividends recognised as a liability at the year-end;
(iii) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
(iv) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance date but not recognised as a liability is to reduce it by nil (2009: nil). In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of nil (2009: nil) franking credits from its Australian wholly-owned subsidiaries during the year.

(g) 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 adjust 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.

Management monitor capital through the capital adequacy ratio (net assets/total assets). The target for the consolidated entity's capital adequacy ratio is between 40% and 60%. The capital adequacy ratios based on continuing operations at 30 June 2010 and 2009 were as follows:

	Consolidated	
	2010	2009
	$'000s	$'000s
Net Assets	32,657	29,536
Total Assets	41,269	42,110
Capital adequacy ratio	79.1%	70.1%

30. Auditor remuneration

The auditor of Cellnet Group Ltd is Ernst & Young

	Consolidated	
	2010	2009
Amounts received or due and receivable by Ernst & Young (Australia & New Zealand) for:		
Audit or review of the financial report of the entity and any other entity in the consolidated group	109,800	145,000
Other services in relation to the entity and any other entity in the consolidated group		
• Tax compliance	8,604	-
• Due diligence	-	150,000
	118,404	295,000

Notes to the Financial Statements (continued)

For the year ended 30 June 2010

31. Cash flow statement reconciliation

	Consolidated	
	2010	**2009**
	$'000s	**$'000s**
Reconciliation of net profit after tax to net cash flows from operations:		
Net profit	1,472	(16,288)
Adjustments for:		
Depreciation	672	710
Amortisation	-	131
Interest received	-	(359)
Impairment loss goodwill	-	4,102
Impairment loss investments	-	102
Write-down inventory	833	2,103
Write-off bad debts	52	906
Loss / (profit) on sale of property, plant & equipment	3	2
Share based payments expense	178	
Foreign exchange (gain) / loss	174	(154)
Share of loss in joint venture	-	33
Changes in assets and liabilities:		
(Increase) / decrease in trade and other receivables	10,511	37,539
(Increase) / decrease in inventories	474	12,936
(Increase) / decrease in current tax assets	184	1,273
(Increase) / decrease in deferred tax assets	26	(3)
(Decrease) / increase in trade and other payables	(13,651)	(23,124)
(Decrease) / increase in provisions	(244)	(172)
Net cash from operating activities	684	19,737

Directors' declaration

In accordance with a resolution of the Directors of Cellnet Group Limited, I state that:

In the opinion of the Directors:

a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

   i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

   ii) complying with Australian Accounting Standards and Corporations Regulations 2001;

b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a);

c) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable;

d) 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 ending 30 June 2010.

On behalf of the Board

Alexander Beard
Chairman
Brisbane
24 August 2010

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Independent auditor's report to the members of Cellnet Group Limited

Report on the Financial Report

We have audited the accompanying financial report of Cellnet Group Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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(a), 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

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

   i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its 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 9 to 16 of the directors' report for the year ended 30 June 2010. 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 Cellnet Group Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Winna Brown

Winna Brown
Partner
Brisbane
24 August 2010

Corporate Governance Statement

Background

"Principles of Good Corporate Governance and Best Practice Recommendations" were published in March 2003, revised effective 1 January 2008 and the latest amendments issued under Corporate Governance Principles and Recommendations (2nd Edition) by the Australian Securities Exchange Limited's Corporate Governance Council. The ASX Listing Rules require listed companies to include in their annual report a statement disclosing the extent to which they have not followed the Best Practice Recommendations during a reporting period and are also required to provide reasons for their non compliance. In addition, specific corporate governance information must be included in the Corporate Governance Statement section or elsewhere in the Annual Report.

Compliance

Cellnet has reviewed its Corporate Governance Statement and this has been published on the Company website. The Company reports annually on it's compliance with the Best Practice Recommendations. After the significant restructure the Company has completed and in recognition of the reduced scale of operations of the business, the Board has adopted and is in the process of executing a turnaround plan that focuses on future viable operations of the business.

In the restructured operations, Cellnet has been unable to fully comply with the requirements of the Corporate Governance Principles and Recommendations and details below the areas where it is not currently compliant. The Board has indicated, however that it will return to full compliance with the best practice recommendations as soon as is practicable.

ASX Principles and Recommendations	**Summary of the Company's Position**
Principle 2 – Structure the board to add value	
Recommendation 2.1 A majority of the Board should be independent directors Recommendation 2.2 The Chair should be an independent Director	The current scale of operations has determined the need for only a four person Board which comprises one executive director (who is the Managing Director) and three non-executive directors (none of whom are independent and includes the Chairman). The Board holds the view that notwithstanding these departures from the guidelines, the current Board has the required capabilities appropriate for the current operating environment, are able to ensure that corporate governance objectives are achieved and their operational performance is totally transparent.
Recommendation 2.4 The Board should establish a nominations committee	In line with the Board's view on the composition and size of the Board having regard to its current strategies and requirements, there is no nominations committee however the full Board assumes the functions of such a committee as and when required.
Recommendation 2.5 Disclose the process for evaluating the performance of the Board, its committees and individual Directors	While there is no structured process in place, the Chairman is able to regularly measure performance through participation at meetings of Directors.
Principle 4 – Safeguard integrity in financial reporting	
Recommendation 4.2 Structure of the Audit Committee	The Company is unable to comply with this recommendation principally due to the current composition of the Board. Notwithstanding this departure, the audit committee process operates in accordance with the Audit Committee Charter.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.2 The remuneration committee should be structured so that it: - consists of a majority of independent directors - is chaired by an independent director - has at least 3 members	Although there are 3 members of the committee, the Company is unable to comply with this recommendation in full principally due to the current composition of the Board. However, the Board assumes the functions of such a committee as and when required.
Recommendation 8.3 Companies should provide information in respect of restrictions on entering into transactions which limit risk in of participating in unvested entitlements.	While there is no structured process in place, the Chairman is able to regularly measure performance through participation at meetings of Directors.

Corporate Governance Principles and Recommendations (2nd edition)

The ASX Corporate Governance Council announced on 30 June 2010 amendments to the current Corporate Governance Principles and Recommendations. Cellnet will recognise the impact of these changes in their Statement of Corporate Governance and report on them as required by no later than 30 June 2012.

In respect of the gender diversity initiatives contained in these changes, Cellnet will facilitate the introduction of an appropriate policy during the year ending 30 June 2011 and monitor progress towards the achievement of appropriate gender diversity in the Company. As part of this process, the Board will ensure that the policy contains measureable objectives for gender diversity but in doing so will need to recognise the nature and size of the Cellnet business and ensure any policy objectives are realistic and achievable.

ASX Additional Information

As at 30 June 2010

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings
20 largest shareholders

Name	Ordinary shares held	% of capital held
CVC Limited	28,472,046	38.74
Trojan Equity Limited	8,276,030	11.26
Melambrook Pty Ltd	3,851,943	5.24
Bywater Investments Limited	3,360,000	4.57
Leagou Funds Management Pty Ltd	2,914,515	3.97
Hesley Consultants Limited	2,800,000	3.81
Walter Stuart MacMillan Smith	2,000,000	2.72
Chemical Trustee Ltd	1,820,000	2.48
Philadelphia Investments Pty Ltd	1,650,274	2.25
Yardley Holdings Limited	1,155,000	1.57
Citicorp Nominees Pty Limited	1,093,584	1.49
Leagou Funds Management	749,618	1.02
TUP Pty Ltd (J Gibbs S/F a/c)	730,500	0.99
Starrison Pty Ltd	702,917	0.96
JH Nominees Australia Pty Ltd (Harry family super fund)	523,000	0.71
Perpetual Custodians Limited	447,126	0.61
The Corporation of the Trustees of the Order of the Sisters of the Presentation in Queensland	420,000	0.57
Colvic Pty Ltd	220,000	0.30
National Nominees Limited	211,771	0.29
Syvest Pty Ltd (Superannuation fund)	182,000	0.25
Top 20 Holders	**61,580,324**	**83.78**
All other holders	11,922,176	16.22
All holders	**73,502,500**	**100.0**

Substantial shareholders
The number of shares held by substantial shareholders and their associates, as advised in substantial holder notices given to the Company, are set out below:

Shareholder	Shares per notice
CVC Limited	28,472,046
Trojan Equity Limited	8,276,030
Melambrook Pty Ltd	3,851,943

ASX Additional Information

Distribution of equity security holders

Category	Number of holders
1 – 1000	544
1001 – 5000	887
5001 – 10,000	287
10,001 – 50,000	199
50,001 – 100,000	29
100,001 and over	29
	1,975

The number of shareholders holding less than a marketable parcel of ordinary shares is 736.