

CELLNET GROUP LTD.

# ANNUAL REPORT

2011



## Contents

	<i>Page</i>
Corporate information	3
Directors' report	4
Statement of financial position	17
Statement of comprehensive income	18
Statement of changes in equity	19
Statement of cash flows	20
Notes to the financial statements	
1 Corporate information	21
2 Significant accounting policies	21
3 Financial risk management objectives and policies	31
4 Segment information	34
5 Other revenue	36
6 Expenses	36
7 Income tax	37
8 Earnings per share	39
9 Current assets – cash and cash equivalents	39
10 Current assets – trade and other receivables	39
11 Current assets – inventories	40
12 Current assets income tax receivable	40
13 Non-current assets – property, plant and equipment	41
14 Current and non-current liabilities – trade and other payables	42
15 Current and non-current liabilities – provisions	42
16 Share-based payments	42
17 Financial instruments	43
18 Commitments	44
19 Financial guarantees	44
20 Share buy-back	44
21 Discontinued operation	45
22 Related party disclosure	46
23 Key management personnel	46
24 Subsequent events	47
26 Parent entity information	48
27 Contributed equity and reserves	48
28 Dividend paid and proposed	49
29 Auditors remuneration	51
30 Cash flow statement reconciliation	51
Directors' declaration	52
Independent Auditors' Report	53
Corporate Governance Statement	55
ASX Additional Information	57

**Cellnet Group Limited and its consolidated entities  
Financial Report**

3

**Corporate Information**

ABN 97 010 721 749

**Directors**

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

**Company Secretary**

C. Barnes  
S. Smith (Joint Company Secretary)

**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.

# Cellnet Group Limited and its consolidated entities Financial Report

4

## Directors' report

Your Directors submit their report for the year ended 30 June 2011.

### 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. 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)
- Villa World Group (appointed 11 April 2011)
- Cyclopharm Limited (appointed 29 April 2011. Resigned 26 July 2011)

##### **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).

##### **Mr S Smith**, B.Com, MAICD, CA (Executive Director and Chief Executive Officer, Joint Company Secretary)

Appointed Chief Executive Officer 30 January 2009. Appointed Managing Director 28 October 2009. Previously Chief Financial Officer from February 2008. Chartered Accountant with previous senior appointments which include Chief Financial Officer for AAPT Mobile (Cellular One). Member of Audit and Risk Management Committee.

##### **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.

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

	<b>Number of ordinary Shares</b>	<b>Number of restricted shares</b>	<b>Number of options</b>
A. Beard	-	-	-
M. Brookman	1,851,943	-	-
S. Harrison	-	-	-
S. Smith	-	2,000,000	-

### Company Secretary

##### **Mr C Barnes**, B. Com. CPA

Appointed 9 March 2011. Mr Barnes is currently the Financial Controller of Cellnet and has been with the Company since 2006. He holds a Bachelor of Accounting Degree and is CPA qualified. Mr Barnes replaces Mr Mackenzie, who resigned as Company Secretary on 9 March 2011. Mr S. Smith noted above is joint Company Secretary with Mr C. Barnes.

### Principal Activities

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

- Wholesale distribution of flash memory, mobile phone accessories and CE equipment and accessories, and fulfilment services to the mobile telecommunications and retail industries in Australia and New Zealand.
- Sales and distribution of products on-line.

## **Cellnet Group Limited and its consolidated entities Financial Report**

5

### **Directors' report (continued)**

There have been no significant changes in the nature of these activities during the year, other than those already noted.

### **Operating and Financial Review Results for the period**

The 2011 pre tax net profit result from continuing operations is in line with prior year. This is a solid result given the challenging trading conditions which have been experienced by the retail sector especially in the second half of the year. Revenue has reduced marginally, however due to an improved product mix and increased cash held on deposit gross profit has improved 1.4% on prior year.

Importantly, this steady result provides the Group with the opportunity from which it can expand. The recent announcement relating to the acquisition of a strategic equity stake in OffYourTrolley, a leading online grocery store, is viewed as the beginning of future growth opportunities which will leverage the underutilised capacity available to the Group.

A further \$4,132,000 has been utilized in the share buy-back program (2010: 856,000). The Company has also recommenced its dividend distribution policy to share holders with a 1.0c fully franked dividend being declared in February 2011 and a further 2.5c fully franked dividend being declared in July 2011 after balance date. This represents a strong return to shareholders of over \$699,000 for the period and a further \$1,532,000 to be returned in the next half. Both the dividend and the share buy-back program have had little effect on the Company's cash reserves which remain strong at over \$20 million at balance sheet date.

### **Significant changes in the state of affairs**

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

### **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.

As is evident from recent announcements, the company is increasing its investment and presence in the online retail sector. Cellnet has the capability and infrastructure to provide these services which it has been doing for third parties for the past 2 years. The investment in resources and staff to leverage this capability together with better utilisation of existing infrastructure will see an improvement in the return on funds invested.

## Directors' report (continued)

### Events subsequent to reporting date

In the interval between the end of the financial year and the date of this report the items that, in the opinion of the Directors of the Company, will affect significantly the operations of the consolidated entity, the results of those operations and the state of affairs of the consolidated entity in future financial years are as follows:

1. Online investment – Cellnet acquired a strategic interest in leading online discount grocery retailer Off Your Trolley ([www.offyourtrolley.com.au](http://www.offyourtrolley.com.au)) on 14 July 2011. Off Your Trolley launched in March 2011 and is Australia's first dedicated grocery deals website offering substantial discounts to consumers on food, beverages, home and personal care, baby products and pet food.

### 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:	4	2	1
Number of meetings attended:			
A. Beard	4	2	1
M. Brookman	4	2	1
S. Smith	4	2	1
S. Harrison	-	-	-

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

# Cellnet Group Limited and its consolidated entities

## Financial Report

7

### Directors' report (continued)

#### Committee membership

As at the date of this report the Company had an Audit and risk management committee and a Remuneration committee.

Members acting on the committee of the Board during the year were:

##### Audit and risk management

M. Brookman (Chairman)  
A. Beard  
S. Smith

##### Remuneration

M. Brookman (Chairman)  
A. Beard  
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	
	2011	2010
	\$	\$
Tax related services	10,386	8,604
	<u>10,386</u>	<u>8,604</u>

#### Rounding

The Company is of a kind referred to in ASIC Class Order 98/0100 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.

#### Share options

2,000,000 shares were issued to S. 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. For further terms and conditions refer to note 16 (b). There were no options were issued in the current year.

#### 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 2011.

**Auditors Independence Declaration**



1 Eagle Street  
Brisbane QLD 4000 Australia  
GPO Box 7878 Brisbane QLD 4001  
Tel: +61 7 3011 3333  
Fax: +61 7 3011 3100  
[www.ey.com/au](http://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 2011, 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.

A handwritten signature in black ink that reads "Ernst &amp; Young".

Ernst & Young

A handwritten signature in black ink that reads "Winna Brown".

Winna Brown  
Partner  
26 August 2011



## Directors' report (continued)

### Remuneration Report (audited)

This remuneration report for the year ended 30 June 2011 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 Parent 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.

For the purposes of this report, the term "executive" includes the Managing Director (MD), executive directors, senior executives, general managers and secretaries of the Parent and the consolidated entity and the term "director" refers to non-executive directors only.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Remuneration at a glance
3. Non-executive director remuneration arrangements
4. Executive remuneration arrangements and the link to company performance

### 1. Individual key management personnel disclosures

#### *Key management personnel*

**(i) Directors**

A. Beard	Chairman (non-executive)
M. Brookman	Director (non-executive)
S. Harrison	Director (non-executive) – resigned effective 31 July 2010
S. Smith	Managing Director and Joint Company Secretary

**(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	Financial Controller and Company Secretary

Other than the resignation of S. Harrison, there were no other changes to KMP after reporting date and before the date the financial report was authorised for issue.

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

## **2. Remuneration at a glance**

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 Parent 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.

## **3. Board oversight of remuneration**

### **Remuneration committee**

The remuneration committee is responsible for making recommendations to the board on the remuneration arrangements of non-executive directors and executives.

The remuneration committee assesses the appropriateness of the nature and amount of remuneration of non-executive directors and executives on a periodic basis by reference to the relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing director and executive team.

### **Remuneration strategy**

Cellnet Group Limited's remuneration strategy is designed to attract, motivate and retain employees and non executive directors by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the consolidated entity.

To this end, key objectives of the Company's reward framework are to ensure that remuneration practices:

- are aligned to the consolidated entity's business strategy
- offer competitive remuneration benchmarked against the external market
- provide strong linkage between individual and the performance and rewards of the consolidated entity

### **Remuneration structure**

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

## **Directors' report (continued)**

### **Remuneration Report (Audited) (continued)**

#### **4. Non-executive director remuneration arrangements**

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 major Board activities and membership of the Audit and Risk Management Committee.

#### **5. Executive remuneration arrangements and the link to company performance**

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 remuneration is also reviewed upon promotion.

##### **5.1 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.

##### **5.2 Variable remuneration – short term incentive (STI) and long term incentive (LTI)**

Performance linked remuneration includes both STI and LTI and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The STI is and 'at risk' bonus provided in the form of cash.

##### **5.3 STI bonus**

Each year the Board and Managing Director set the key performance indicators (KPIs) for the key management personnel and the Board sets the KPI's for the Managing Director. 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 2011 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% 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 target 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.

##### *STI awards for 2010 and 2011 financial years*

For the 2010 financial year, a total payment of \$141,956 was made which represents 81.1% of the total STI cash bonus previously accrued in that period which has vested to executives. This was paid in bi-annual instalments in both the 2010 and 2011 financial years. The forfeitures amounted to \$33,044. For the 2011 financial year, a total payment of \$180,684 was made which represents 88.1% of the total STI cash bonus previously accrued in that period which has vested to executives. This was paid in bi-annual instalments in both the 2011 and 2012 financial years. The forfeitures amounted to \$24,316.

**Directors' report (continued)**

**Remuneration Report (Audited) (continued)**

**5. Executive remuneration arrangements and the link to company performance (continued)**

**5.4 LTIs- Executive Share Option Plan**

**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 (2010: nil) and there are no options currently on issue.

**LTI 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. No shares were issued in the current year (2010: 2,000,000).

**5.5 STI 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.

Improving the performance of the operations was the main financial performance targets in setting the financial year 2011 short-term incentive.

**5.6 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 indicies in respect of the current financial year and previous financial years.

Details	2011	2010	2009	2008	2007
Net profit attributable to equity holders of the Company	\$1,041,000	\$1,472,000	(\$16,288,000)	(\$4,702,000)	\$5,887,000
Dividends paid	\$699,000	-	-	-	\$1,031,000
Change in share price	\$0.09	\$0.05	(\$0.03)	(0.65)	(\$0.21)*
Working capital days at year end	46	46	18	43.3**	60.8
Cash flow	(\$708,000)	\$557,000	\$10,435,000	\$14,105,000	(\$4,058,000)

\* 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 2011 short-term incentive.

**Directors' report (continued)**

**Remuneration Report (Audited)(continued)**

**5.7 Other benefits**

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

**6. Executive contractual arrangements**

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 2011, Stuart Smith, the Managing Director, has a contract of employment dated 19 December 2007, which was subsequently amended with the change in positions. The Managing Directors' termination provisions are as follows:

Details	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of LTI on termination
Employer initiated termination	12 months	12 months	Pro-rated for time and performance	Board discretion
Termination for serious misconduct	None	None	Unvested awards forfeited	Unvested awards forfeited
Employee initiated termination	3 months	3 months	Pro-rated for time and performance	Unvested awards forfeited subject to Board

Standard KMP termination provisions apply to all members of the KMP. The standard KMP provisions are as follows:

Details	Notice period	Payment in lieu of notice	Treatment of STI on termination
Employer initiated termination	3 months	3 months	Pro-rated for time and performance
Termination for serious misconduct	None	None	Unvested awards forfeited
Employee initiated termination	3 months	3 months	Pro-rated for time and performance

**Cellnet Group Limited and its consolidated entities**  
**Financial Report**

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

**6.1 Directors' and Executive officers' remuneration**

Year	Salary & fees \$	STI cash bonus \$	Short-term		Non monetary benefits \$	Post Employment	Long-term benefits		Share-based payments	Total \$	% performance related	% STI forfeited
			Motor Vehicle allowances \$	Superannuation benefits \$		Cash Incentives \$	Long Service Leave \$					
Remuneration of key management personnel and the five highest paid executives of the Company and the consolidated entity are as follows:												
<b>Non-executive Directors</b>												
<b>Mr A. Beard</b>												
2011	54,500	-	-	-	-	-	-	-	-	54,500	-	-
2010	54,500	-	-	-	-	-	-	-	-	54,500	-	-
<b>Mr S. Harrison (Resigned 31.07.10)</b>												
2011	4,167	-	-	-	-	-	-	-	-	4,167	-	-
2010	50,000	-	-	-	-	-	-	-	-	50,000	-	-
<b>Mr M Brookman</b>												
2011	50,000	-	-	-	-	-	-	-	-	50,000	-	-
2010	50,000	-	-	-	-	-	-	-	125,000	175,000	-	-
<b>Total non-executive directors</b>												
2011	108,667	-	-	-	-	-	-	-	-	108,667	-	-
2010	154,500	-	-	-	-	-	-	-	125,000	279,500	-	-
<b>Executive Director</b>												
<b>Mr S. Smith (Appointed October 2009)</b>												
2011	268,752	20,000	-	-	-	15,199	-	-	79,661	383,612	5.21	-
2010	250,000	-	-	-	-	16,336	-	-	53,110	319,446	-	-

**Cellnet Group Limited and its consolidated entities**  
**Financial Report**

**Directors' report (continued)**  
**Remuneration report (Audited)(continued)**  
**Directors' and Executive officers' remuneration**

		<i>Salary &amp; fees</i>	<i>Short-term</i>	<i>Motor Vehicle allowances</i>	<i>Non monetary benefits</i>	<i>Post Employment Superannuation benefits</i>	<i>Long-term benefits</i>	<i>Share-based payments</i>	<i>Total</i>	<i>% performance related</i>	
		\$	\$	\$	\$	\$	Cash Incentives \$	Long Service Leave \$	\$	\$	
<b>Other key management personnel</b>											
J. Phua	2011	155,939	45,000	-	-	16,182	-	-	-	217,121	20.73
	2010	133,440	42,500	-	-	15,716	-	-	-	191,656	22.18
B. Watts	2011	132,000	7,000	-	-	12,915	-	-	-	151,915	4.61
	2010	122,000	17,000	10,000	-	13,410	-	-	-	162,410	10.47
M. Wallace	2011	140,000	63,525	-	-	15,752	-	-	-	219,277	28.97
	2010	140,000	53,252	-	-	15,765	-	-	-	209,017	25.48
E. Schillinger	2011	105,000	21,409	15,000	-	11,826	-	-	-	153,235	13.97
	2010	104,596	9,829	15,000	-	11,648	-	-	-	141,073	6.97
C. Barnes	2011	112,916	23,750	-	-	11,681	-	-	-	148,367	16.01
	2010	101,250	19,375	-	-	10,856	-	-	-	131,481	14.74
Total executive and KMP	2011	914,607	180,684	15,000	-	83,555	-	-	79,661	1,273,527	13.86
	2010	851,286	141,956	25,000	-	83,731	-	-	53,110	1,155,083	12.29
Totals	2011	1,023,274	180,684	15,000	-	83,555	-	-	79,661	1,377,299	12.76
	2010	1,005,786	141,956	25,000	-	83,731	-	-	178,110	1,434,583	9.89

Directors' report (continued)

This report is made with a resolution of the Directors:

A handwritten signature in black ink, appearing to read 'A Beard', written in a cursive style.

---

Alexander Beard  
Chairman

Signed at Brisbane on 26 August 2011



**Cellnet Group Limited and its consolidated entities  
Financial Report**

17

**Statement of financial position**

**As at 30 June 2011**

	<i>Note</i>	<b>Consolidated</b>	
		<b>2011</b>	<b>2010</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	<b>9</b>	20,044	20,830
Trade and other receivables	<b>10</b>	9,260	10,372
Inventories	<b>11</b>	5,259	5,293
Income tax receivable	<b>12</b>	94	98
		<b>34,657</b>	<b>36,593</b>
<b>Current assets held as part of discontinued operations</b>			
Trade and other receivables	<b>21</b>	4	4
Inventories	<b>11, 21</b>	-	51
		<b>4</b>	<b>55</b>
<b>Total current assets</b>		<b>34,661</b>	<b>36,648</b>
<b>Non-current assets</b>			
Deferred tax assets	<b>7</b>	2,754	2,667
Property, plant and equipment	<b>13</b>	1,517	1,789
<b>Total non-current assets</b>		<b>4,271</b>	<b>4,456</b>
<b>TOTAL ASSETS</b>		<b>38,932</b>	<b>41,104</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	<b>14</b>	9,316	7,673
Provisions	<b>15</b>	491	502
<b>Total current liabilities</b>		<b>9,807</b>	<b>8,175</b>
<b>Non-current liabilities</b>			
Provisions	<b>15</b>	327	272
<b>Total non-current liabilities</b>		<b>327</b>	<b>272</b>
<b>TOTAL LIABILITIES</b>		<b>10,134</b>	<b>8,447</b>
<b>NET ASSETS</b>		<b>28,798</b>	<b>32,657</b>
<b>EQUITY</b>			
Issued capital	<b>27(a)</b>	37,861	41,993
Reserves		700	769
Retained earnings		(9,763)	(10,105)
<b>TOTAL EQUITY</b>		<b>28,798</b>	<b>32,657</b>

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

**Cellnet Group Limited and its consolidated entities  
Financial Report**

18

**Statement of comprehensive income**

**For the year ended 30 June 2011**

	Note	Consolidated	
		2011 \$'000	2010 \$'000
<b>Continuing operations</b>			
Sales of goods		72,534	73,823
Rendering of services		1,116	1,443
Other revenue	5	1,019	870
Revenue		74,669	76,136
Cost of sales	6(d)	(58,273)	(59,966)
<b>Gross Profit</b>		<b>16,396</b>	<b>16,170</b>
Distribution expenses		(2,551)	(2,025)
Sales and marketing expenses		(5,152)	(4,552)
Administrative expenses		(7,069)	(7,577)
Bad debts expenses/(recoveries)		69	(52)
Other expenses	6(a)	(576)	(849)
<b>Profit from continuing operations before income tax</b>		<b>1,117</b>	<b>1,115</b>
Income tax benefit	7	87	40
<b>Profit from continuing operations after income tax</b>		<b>1,204</b>	<b>1,155</b>
<b>Discontinued operations</b>			
Profit / (loss) from discontinued operations after income tax	21	(163)	317
<b>Net profit for the period</b>		<b>1,041</b>	<b>1,472</b>
<b>Other comprehensive income</b>			
Foreign currency translation		(149)	(120)
<b>Total comprehensive income for the period</b>		<b>892</b>	<b>1,352</b>
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company</b>			
Basic earnings per share	8	\$0.02	\$0.02
Diluted earnings per share	8	\$0.02	\$0.02
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company</b>			
Basic earnings per share	8	\$0.02	\$0.02
Diluted earnings per share	8	\$0.02	\$0.02

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 2011**

	<b>Consolidated</b>					
	<b>Share capital</b>	<b>Reserve for own shares</b>	<b>Foreign currency translation reserve</b>	<b>Share based payment reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
At 1 July 2010	41,993	(25)	185	609	(10,105)	32,657
Profit for the period	-	-	-	-	1,041	1,041
Foreign currency translation	-	-	(149)	-	-	(149)
Total comprehensive income for the period			(149)		1,041	892
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	-	-	(699)	(699)
Share buy-back	(4,132)	-	-	-	-	(4,132)
Share based payments	-	-	-	80	-	80
Balance as at 30 June 2011	37,861	(25)	36	689	(9,763)	28,798
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

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

**Cellnet Group Limited and its consolidated entities  
Financial Report**

20

**Statement of cash flows**

**For the year ended 30 June 2011**

	<i>Note</i>	<b>Consolidated</b>	
		<b>2011</b>	<b>2010</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		82,821	96,458
Payments to suppliers and employees (inclusive of GST)		(79,498)	(96,023)
Interest paid		-	-
Net income taxes received		-	249
<b>Net cash flows from operating activities</b>		<b>3,323</b>	<b>684</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		-	44
Interest received	5	1,019	870
Acquisition of property, plant and equipment	13	(219)	(185)
<b>Net cash flows from/(used in) investing activities</b>		<b>800</b>	<b>729</b>
<b>Cash flows from financing activities</b>			
Share buy back	20	(4,132)	(856)
Dividend		(699)	-
<b>Net cash flows from/(used in) financing activities</b>		<b>(4,831)</b>	<b>(856)</b>
Net increase/(decrease) in cash and cash equivalents		(708)	557
Net foreign exchange differences		(78)	(126)
Cash and cash equivalents at beginning of period		20,830	20,399
<b>Cash and cash equivalents at end of period</b>	9	<b>20,044</b>	<b>20,830</b>

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 2011**

**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 2011 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 26 August 2011.

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, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report 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).

**Compliance with IFRS**

The financial report complies with 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 consolidated entity has reviewed the new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2010 and is of the view that none are applicable to its current operations.

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the consolidated entity for the annual reporting period ending 30 June 2011, outlined below.

**AASB 9 Financial Instruments** - AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). Application date of standard 1 January 2013. Impact on the consolidated financial report – minimal. Application date for the consolidated entity 1 July 2013.

**AASB 124 (Revised) Related Party Disclosures (December 2009)** - The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. Application date of standard 1 January 2011. Impact on the consolidated financial report – minimal. Application date for the consolidated entity 1 July 2011.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2011

**2. Significant accounting policies (continued)**

**(b) New Accounting Standards and Interpretations (continued)**

**AASB 1053 Application of Tiers of Australian Accounting Standards** This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements

Application date of standard 1 January 2013. Impact on the consolidated financial report – minimal. Application date for the consolidated entity 1 July 2013.

**AASB 1054 Australian Additional Disclosures.** This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:

(a) Compliance with Australian Accounting Standards

(b) The statutory basis or reporting framework for financial statements

(c) Whether the financial statements are general purpose or special purpose

(d) Audit fees

(e) Imputation credits

Application date of standard 1 July 2011. Impact on the consolidated financial report – minimal. Application date for the consolidated entity 1 July 2011.

**AASB 2010-5 Amendments to Australian Accounting Standards** [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]. This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.

Application date of standard 1 January 2011. Impact on the consolidated financial report – minimal. Application date for the consolidated entity 1 July 2011.

**AASB 2010-7 Amendments to Australian Accounting Standards** [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:

- ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
- ▶ The remaining change is presented in profit or loss

Application date of standard 1 January 2013. Impact on the consolidated financial report – minimal. Application date for the consolidated entity 1 July 2013.

**Consolidated Financial Statements.** IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Application date 1 January 2013. Impact on the consolidated financial report – minimal. Application date for the consolidated entity 1 July 2013.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2011

**2. Significant accounting policies (continued)**

**(b) New Accounting Standards and Interpretations (continued)**

**Joint Arrangements.** IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly- controlled Entities – Non-monetary Contributions by Ventures. IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the consolidated entity. Application date 1 January 2013. Impact on the consolidated financial report – minimal. Application date for the consolidated entity 1 July 2013.

**Disclosure of Interests in Other Entities.** IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. Application date 1 January 2013. Impact on the consolidated financial report – minimal. Application date for the consolidated entity 1 July 2013.

**(c) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Cellnet Group Ltd and its subsidiaries (as outlined in note 22 as at and for the period ended 30 June each year (the consolidated entity). Interests in associates are equity accounted and are not part of the consolidated entity.

Subsidiaries are all those entities over which the consolidated entity 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 (continued)  
For the year ended 30 June 2011

**2. Significant accounting policies (continued)**

**(d) Foreign currency (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) 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 (j)).

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.

(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	3 $\frac{1}{3}$ - 40 years
Plant and equipment	2 $\frac{1}{2}$ - 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.

**(f) Intangible assets**

(i) Goodwill

*Business combinations*

Subsequent to 1 July 2009

Goodwill acquired in a business combination being the excess of the consideration transferred over the fair value of the group's net identifiable net assets after measure at cost 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 net income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(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 (j)).

(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.



**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**2. Significant accounting policies (continued)**

**(f) Intangible assets (continued)**

**(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.

**(g) 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 recognised. For any debts that are passed onto the consolidated entities solicitors for collection a provision of 100% is provided.

**(h) 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. The amounts are provisioned as per below:

Stock < 120 days	Nil
Stock > 120 days	50%
Stock > 180 days	Genuine product 50%, Non genuine product 75%
Stock > 360 days	100%

**(i) 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.

**(j) Impairment**

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy (h)), trade and other receivables (see accounting policy (g)) and deferred tax assets (see accounting policy (r)), 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 (j)(i)).

For goodwill, intangible 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.

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.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2011

**2. Significant accounting policies (continued)**

**(j) Impairment (continued)**

**(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 relates.

**(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 net income.

**(k) 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.

**(l) 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.

**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**2. Significant accounting policies (continued)**

**(m) Provisions and employee leave benefits**

**(i) Provisions**

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.

**(ii) 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.

**(iii) 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.

**(n) Share based payment transactions**

The consolidated entity provides benefits to KMP in the form of share based payments, whereby the KMP renders services in exchange for shares. There is currently only one share based payment plan in place for the Managing Director. The cost of share based payments with KMP is measured by reference to the fair value of the equity instrument at the date at which they are granted (refer note 16 (b) for further details).

**(o) 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.

**(p) 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.

**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**2. Significant accounting policies (continued)**

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.

**(q) 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.

**(r) 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 entity with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated entity is Cellnet Group Limited.

**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**2. Significant accounting policies (continued)**

**(r) Income tax (continued)**

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated entity are recognised in the separate financial statements of the members of the tax-consolidated entity using the 'separate taxpayer within consolidated entity's 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 entity and are recognised as amounts payable/(receivable) to/ (from) other entities in the tax-consolidated entity 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.

The Company recognises deferred tax assets arising from unused tax losses and unused tax credits of the tax-consolidated entity to the extent that it is probable that future taxable profits of the tax-consolidated entity 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 entity, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated entity 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 related 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.

**(s) 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.

**(t) 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.

**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(d) contains information about the stock on hand impairments losses and changes in the way the estimate was calculated.

## **Notes to the Financial Statements (continued)**

For the year ended 30 June 2011

### **2. Significant accounting policies (continued)**

#### **Share based payments**

The consolidated entity 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 16. 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 consolidated entity 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 which the recognised unused tax losses can be utilised.

#### **(u) 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.

#### **(v) 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.

#### **(w) 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 Managing Director. Note 4 contains information on reportable segments.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2011

### 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 targets 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 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.

	2011 \$000s	2010 \$000s
<b>Financial assets</b>		
Cash and cash equivalents	20,044	20,830
	20,044	20,830

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.

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

**At 30 June 2011, 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)	
	2011 \$000s	2010 \$000s	2011 \$000s	2010 \$000s
Consolidated				
+1% (100 basis points)	177	28	-	-
-0.5% (50 basis points)	(88)	(14)	-	-

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

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2011

**3. Financial risk management objectives and policies (continued)**

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 entity's 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. There is currently no hedge in place to mitigate the foreign currency risk for this subsidiary.

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:**

	2011 \$000s	2010 \$000s
Financial assets		
Trade and other receivables	950	220
	950	220
Financial liabilities		
Trade and other payables	(3,751)	(3,251)
	(3,751)	(3,251)
Net exposure	(2,801)	(3,031)

**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)	
	2011 \$000s	2010 \$000s	2011 \$000s	2010 \$000s
Consolidated				
AUD / USD +10% (2010: +10%)	221	355	-	-
AUD / USD -10% (2010: -10%)	(343)	(243)	-	-

Significant assumptions:

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.



## Notes to the Financial Statements (continued)

For the year ended 30 June 2011

### 3. Financial risk management objectives and policies (continued)

#### 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.

#### Maturity analysis of financial liabilities based on management's expectation

Consolidated:

	Note	2011				
		Total	6 months or less	6 – 12 months	1 – 5 years	More than 5 years
<b>Liquid financial assets</b>						
Cash and cash equivalents	9	20,044	20,044	-	-	-
Trade and other receivables	10	9,260	9,100	107	53	-
		29,304	29,144	107	53	-
<b>Financial liabilities</b>						
Trade and other payables	14	(9,316)	(9,156)	(107)	(53)	-
		(9,316)	(9,156)	(107)	(53)	-
Net inflow		19,988	19,988	-	-	-
<b>2010</b>						
		Total	6 months or less	6 – 12 months	1 – 5 years	More than 5 years
<b>Liquid financial assets</b>						
Cash and cash equivalents		20,830	20,830	-	-	-
Trade and other receivables		10,372	10,372	-	-	-
		31,202	31,202	-	-	-
<b>Financial liabilities</b>						
Trade and other payables		(7,673)	(7,673)	-	-	-
		(7,673)	(7,673)	-	-	-
Net inflow		23,529	23,529	-	-	-

## **Notes to the Financial Statements (continued)**

For the year ended 30 June 2011

### **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 Managing Director (the chief operating decision maker) in assessing performance and in determining the allocation of 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 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.

##### *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 financial statements and in the prior period.

#### **Proportionate consolidation of associates results**

Operating results and share of assets and liabilities are proportionately consolidated for the purposes of internal reporting whereas for the preparation of the financial statements they are equity accounted.

#### **Unallocated items**

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Deferred tax asset
- Results from discontinued operations

#### **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 2011

	Retail sales \$000s	On-Line sales \$000s	Unallocated items \$000s	Total \$000s
<b>For the year ended 30 June 2011</b>				
<b>Revenue</b>				
Sales to external customers	72,451	83	-	72,534
Other revenues from external customers	1,116	-	-	1,116
Other revenue	1,019	-	-	1,019
<b>Total segment revenue</b>	<b>74,586</b>	<b>83</b>	<b>-</b>	<b>74,669</b>
<b>Segment net operating profit after tax</b>	<b>1,204</b>	<b>-</b>	<b>-</b>	<b>1,204</b>
<b>Discontinued operations after income tax</b>	<b>-</b>	<b>-</b>	<b>(163)</b>	<b>(163)</b>
Segment assets	36,137	46	2,749	38,932
Segment liabilities	9,301	15	-	9,316
<b>Cash flow information</b>				
Net cash flow from operating activities	3,323	-	-	3,323
Net cash flow from investing activities	800	-	-	800
Net cash flow from financing activities	(4,831)	-	-	(4,831)
<b>For the year ended 30 June 2010</b>				
<b>Revenue</b>				
Sales to external customers	72,688	1,135	-	73,823
Other revenues from external customers	1,443	-	-	1,443
Other revenue	870	-	-	870
<b>Total segment revenue</b>	<b>75,001</b>	<b>1,135</b>	<b>-</b>	<b>76,136</b>
<b>Segment net operating profit after tax</b>	<b>1,729</b>	<b>(574)</b>	<b>-</b>	<b>1,155</b>
<b>Discontinued operations after income tax</b>	<b>-</b>	<b>-</b>	<b>317</b>	<b>317</b>
Segment assets	37,750	852	2,667	41,269
Segment liabilities	6,673	1,000	-	7,673
<b>Cash flow information</b>				
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)

## Notes to the Financial Statements (continued)

For the year ended 30 June 2011

### 4. Operating segments (continued)

#### (i) Segment revenue reconciliation to the statement of comprehensive income

	2011 \$'000	2010 \$'000
Total segment revenue	72,534	73,823
Other revenue from continuing activities	2,135	2,313
Total revenue	74,669	76,136

Revenue from external customers by geographical location is detail below. Revenue is attributable to geographic location based on the location of the customers. The company does not have external revenues from external customers that are attributable to any foreign country other than as shown.

	2011 \$'000	2010 \$'000
Australia	63,343	65,229
New Zealand	11,326	10,907
Total revenue	74,669	76,136

### 5. Other revenue

	Consolidated	
	2011 \$'000	2010 \$'000
Interest	1,019	816
Other	-	54
	1,019	870

### 6. Expenses

	Consolidated	
	2011 \$'000	2010 \$'000
<b>(a) Other expenses</b>		
Depreciation	442	672
Total depreciation and amortisation	442	672
Net loss on disposal of property, plant and equipment	-	3
Net foreign currency exchange loss	134	174
Total other expenses	576	849
<b>(b) Employee benefits expense</b>		
Wages and salaries	7,887	7,297
Superannuation expense	565	592
Share based payment expense	80	178
Other employee benefits expense	79	419
Total employee benefits expense	8,611	8,486
<b>(c) Lease payments included in net income</b>	842	819
Minimum lease payments – operating lease	842	819
<b>(d) Cost of sales</b>		
Cost of goods sold	57,507	59,133
Impairment of inventory included in cost of sales	766	833
Total cost of sales	58,273	59,966

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2011

**7. Income Tax**

	Consolidated	
	2011 \$'000	2010 \$'000
<b>(a) Income tax expense</b>		
The major components of income tax are:		
Recognised in net income	-	(555)
Current income tax		
Current income tax charge	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	87	1,057
(Recognition)/ derecognition of deferred tax asset relating to utilised foreign tax credits	-	(462)
<b>Total income tax benefit reported in net income</b>	<b>87</b>	<b>40</b>
<b>(b) Numerical reconciliation between aggregate tax expense recognised in net income and tax expense calculated per the statutory income tax rate</b>		
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	1,117	1,155
Profit / (loss) before tax from discontinuing operations	(163)	317
<b>Total accounting profit before income tax</b>	<b>954</b>	<b>1,472</b>
At the parent entities statutory income tax rate 30% (2010: 30%)	286	442
Adjustments in respect of current income tax of previous years	-	(12)
Non-deductible expenses	24	-
Entertainment	7	8
(Recognition)/non-recognition of tax losses	-	-
Previously unrecognised tax losses used to reduce deferred tax asset	(230)	(398)
Aggregate income tax expense is attributable to:		
Continuing operations	-	-
Discontinued operations	-	-
	<b>87</b>	<b>40</b>

## Notes to the Financial Statements (continued)

For the year ended 30 June 2011

### 7. Income Tax (continued)

#### (c) Recognised deferred tax assets and liabilities

	Consolidated			
	2011 \$'000	2011 \$'000	2010 \$'000	2010 \$'000
	Current income tax	Deferred income tax	Current income tax	Deferred income tax
Opening balance	98	2,667	284	2,690
Charged to income	-	87	63	(23)
Payments/ (refunds)	(4)	-	(249)	-
Closing balance	94	2,754	98	2,667
Tax expense in net income	-	-	-	40
Amounts recognised in the statement of financial position:	-	-	-	-
Deferred tax asset	-	2,752	-	2,667
Deferred tax liability	-	(2)	-	-
		2,754		2,667

Deferred income tax at 30 June relates to the following:

	2011 \$'000	2010 \$'000
<i>Deferred tax assets</i>		
Property, plant and equipment	66	46
Provisions and other	663	757
Value of tax losses carried forward	2,025	1,864
Net deferred tax asset	2,754	2,667

#### (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 \$17,163,813 (2010: \$23,500,992) 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.

#### (e) Taxation of financial arrangements (TOFA)

Legislation is in place which changes the tax treatment of financial arrangements including the tax treatment of hedging transactions. The consolidated entity has assessed the potential impact of these changes on its tax position. No impact has been recognised and no adjustments have been made to the deferred tax and income tax balances at 30 June 2011 (2010: \$Nil)

**Notes to the Financial Statements (continued)**  
For the year ended 30 June 2011

**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**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$000s</b>	<b>\$000s</b>
<i>For basic earnings per share:</i>		
Profit from continuing operations	1,204	1,155
Profit / (loss) from discontinued operations	(163)	317
Net profit attributable to ordinary equity holders	<b>1,041</b>	<b>1,472</b>
<i>For diluted earnings per share:</i>		
Profit / from continuing operations	1,204	1,155
Profit / (loss) from discontinued operations	(163)	317
Net profit attributable to ordinary equity holders	<b>1,041</b>	<b>1,472</b>

**(b) Weighted average number of shares**

	<b>2011</b>	<b>2010</b>
	<b>000s</b>	<b>000s</b>
Weighted average number of shares (basic) at 30 June	67,229	75,700
Weighted average number of shares adjusted for effect of dilution	<b>67,229</b>	<b>75,700</b>

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

**9. Current assets – cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$000s</b>	<b>\$000s</b>
Cash at bank and in hand	2,844	2,480
Short-term deposits	16,850	18,000
Funds held by bank (refer note 19)	350	350
	<b>20,044</b>	<b>20,830</b>

**10. Current assets – trade and other receivables**

	<b>2011</b>	<b>2010</b>
	<b>\$000s</b>	<b>\$000s</b>
Trade receivables	9,495	10,898
Allowances for impairment loss (a)	(624)	(782)
	<b>8,871</b>	<b>10,116</b>
Other receivables and prepayments	389	222
Receivables due from related parties	-	34
Carrying amount of trade and other receivables	<b>9,260</b>	<b>10,372</b>

**Notes to the Financial Statements (continued)**  
For the year ended 30 June 2011

**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. 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. Receivables that were considered impaired in the prior year of \$149,000 have since been recovered. The provision for these recovered debts has been reversed in the current year. These amounts have been included in the bad debts expense item in net income. Movements in the provision for impairment loss were as follows:

	Consolidated	
	2011 \$000s	2010 \$000s
At 1 July	782	1,718
Charge for the year	(77)	52
Amount recovered		-
Amounts written off	(81)	(988)
At 30 June	<b>624</b>	<b>782</b>

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

	Total \$000s	0-30 days \$000s	31-60 days \$000s	61-90 days PDNI* \$000s	+ 91 days PDNI* \$000s	+91 days CI* \$000s
2011 Consolidated	9,495	5,445	2,761	405	260	624
2010 Consolidated	10,898	9,526	296	159	135	782

\* Past due not impaired (PDNI)

\* Considered impaired (CI)

Receivables past due but not considered impaired are \$434,000 (2010: \$135,000). 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	
	2011 \$000s	2010 \$000s
Stock on hand	5,913	6,300
Less: provision for obsolescence	(654)	(956)
Total inventories at the lower of cost and net realisable value	<b>5,259</b>	<b>5,344</b>

**(a) Inventory expense**

Inventories recognised as an expense for the year ended 30 June 2011 totalled \$51,330,000 (2010: \$54,455,000). This expense has been included in the cost of sales line item as a cost of inventories.

**12. Current assets – income tax receivable**

The current tax asset for the consolidated entity of \$94,000 (2010: \$98,000) 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.



## Notes to the Financial Statements (continued)

For the year ended 30 June 2011

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

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

	Consolidated				
	Buildings \$000s	Leasehold improvements \$000s	Plant & Equipment \$000s	Plant & Equipment under lease \$000s	Total \$000s
<b>For the year ended 30 June 2011</b>					
At 1 July 2011 net of accumulated depreciation and impairment	-	411	1,369	9	1,789
Additions	-	1	218	0	219
Disposals	-	0	(49)	0	(49)
Depreciation charge for the year	-	(78)	(362)	(2)	(442)
At 30 June 2011 net of accumulated depreciation and impairment	-	334	1,176	7	1,517
<b>At 30 June 2011</b>					
Cost or fair value	21	816	9,014	2,135	11,986
Accumulated depreciation and impairment	(21)	(482)	(7,838)	(2,128)	(10,469)
Net carrying amount	-	334	1,176	7	1,517
<b>For the year ended 30 June 2010</b>					
At 1 July 2010 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
<b>At 30 June 2010</b>					
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

## Notes to the Financial Statements (continued)

For the year ended 30 June 2011

### 14. Current and non-current liabilities – trade and other payables

	Consolidated	
	2011 \$000s	2010 \$000s
<b>Current</b>		
Trade payables	6,722	6,280
Other payables and accrued expenses	2,594	1,393
	<b>9,316</b>	<b>7,673</b>

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

### 15. Current and non-current liabilities – provisions

	Consolidated	
	2011 \$000s	2010 \$000s
<b>Current</b>		
Provision for fringe benefits tax	1	1
Liability for annual leave and employee provisions	490	501
Total current employee benefits	<b>491</b>	<b>502</b>
<b>Non-Current</b>		
Liability for long-service leave	327	272
Total non-current employee benefits	<b>327</b>	<b>272</b>

**(a) Nature and timing of provisions**

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

### 16. Share based payments

**(a) Employee share bonus**

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

**Notes to the Financial Statements (continued)**  
For the year ended 30 June 2011

**16. Share based payments (continued)**

**(b) Long term incentive plan**

**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 Black and Scholes methodology was used to value the options. 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.

**Employee expenses**

	Note	Consolidated	
		2011 \$000s	2010 \$000s
Expense arising from 2,500,000 options granted to Mel Brookman on 18 January 2008		-	125
Expense arising from 2,000,000 shares granted to Stuart Smith on 18 October 2009		80	53
Total expense recognised as employee costs	6(b)	<b>80</b>	<b>178</b>

**17. 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 are recognised in net 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	Fair value	Carrying amount	Fair value
		2011 \$000s	2011 \$000s	2010 \$000s	2010 \$000s
Cash and cash equivalents	9	20,044	20,044	20,830	20,830
Trade and other receivables	10	9,260	9,260	10,372	10,372
Trade and other payables	14	(9,316)	(9,316)	(7,673)	(7,673)
		<b>19,988</b>	<b>19,988</b>	<b>23,529</b>	<b>23,529</b>

**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.

**Notes to the Financial Statements (continued)**  
For the year ended 30 June 2011

**17. Financial Instruments (continued)**

**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.

**18. Commitments**

**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:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$000s</b>	<b>\$000s</b>
Less than one year	378	890
Between one and five years	160	279
	<b>538</b>	<b>1,169</b>

**19. Financial guarantees**

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.

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$000s</b>	<b>\$000s</b>
<b>Contingent liabilities considered remote</b>		
(i) The consolidated entity has provided bank guarantees in the normal course of business.	350	321
	<b>350</b>	<b>321</b>

**20. 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 2011 cash of \$4,132,000 had been utilised to re-purchase 12,238,767 shares.

**Notes to the Financial Statements (continued)**  
For the year ended 30 June 2011

**21. 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. An expense is recognised in the current financial year relating to legal expenses incurred in the defence of a preferential payment claim from the Liquidators of Leading Solutions Ltd, a discontinued operations customer.

Results of the discontinued operations for the year are presented below:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$000s</b>	<b>\$000s</b>
<b>Results of discontinued operation</b>		
Revenue	-	1,623
Expenses	(163)	(1,306)
Results from operating activities	(163)	317
Income tax benefit	-	-
Results from operating activities, net of income tax	(163)	317
Profit (loss) for the period	(163)	317
Basic earnings per share	(0.00)	(0.00)
Diluted earnings per share	(0.00)	(0.00)
Major classes of assets and liabilities of the discontinued operation are presented below:	-	
Trade and other receivables	169	169
Inventory	-	51
Assets attributable to discontinued operations	169	220
Liabilities held for sale		
Trade and other payables	(165)	(165)
Liabilities attributable to discontinued operations	(165)	(165)
Net assets attributable to discontinued operations	4	55
<b>Cash flows from discontinued operation</b>		
Net cash from operating activities	(163)	(750)
Net cash from (used in) discontinued operation	<b>(163)</b>	<b>(750)</b>

**Notes to the Financial Statements (continued)**  
For the year ended 30 June 2011

**22. Related party disclosure**

**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	
		2011	2010
Cellnet Group Ltd (Parent)	Australia	100	100
CDW Pty Ltd*	Australia	-	100
Cellnet Ltd	New Zealand	100	100
Comms Plus Marketing Pty Ltd	Australia	100	100
Atchinson Pty Ltd*	Australia	-	100
C&C Warehouse (Holdings) Pty Ltd	Australia	100	100
Printer Wholesalers Pty Ltd*	Australia	-	100
Cassa Australia Pty Ltd*	Australia	-	100
In2 Holdings Pty Ltd*	Australia	-	100
VME Systems Pty Ltd	Australia	100	100
Michael Hornsby & Associates Pty Ltd	Australia	100	100
R&C Holdings Pty Ltd*	Australia	-	100

\* These companies were deregistered in the current year.

**23. Key management personnel**

**(a) Key management personnel remuneration**

	Consolidated	
	2011 \$000s	2010 \$000s
Short-term employee benefits	1,110,311	1,172,742
Post-employment benefits	83,555	83,731
Share-based payment benefits	79,661	178,110
Total compensation	<b>1,273,527</b>	<b>1,434,583</b>

**(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 16 (b).

**(c) 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 2010	Purchases	Other acquisitions / disposals	Sales	Held at 30 June 2011
S. Harrison	702,917	-	-	(702,917)	-
M. Brookman	3,851,943	-	-	(2,000,000)	1,851,943
S. Smith	2,000,000	-	-	-	2,000,000
M. Wallace	219	-	-	(219)	-

## Notes to the Financial Statements (continued)

For the year ended 30 June 2011

### 23. Key management personnel (continued)

#### (c) Shareholdings of key management personnel (continued)

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

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

#### (d) 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	
			2011 \$000s	2010 \$000s
Mercury Mobility (Australia) Pty Ltd	Rendering of services and rental	(i)	-	77

(i) Cellnet Group Limited earned nil 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, in the current year. (2010: \$77,000) post its demerger from the consolidated entity.

### 24. Subsequent events

In the interval between the end of the financial year and the date of this report there has been two items that in the opinion of the Directors of the Company, will affect significantly the operations of the consolidated entity, the results of those operations and the state of affairs of the consolidated entity in future financial years:

1. Online investment – Cellnet acquired a strategic interest in leading online discount grocery retailer Off Your Trolley ([www.offyourtrolley.com.au](http://www.offyourtrolley.com.au)) on 14 July 2011. Off Your Trolley launched in March 2011 and is Australia's first dedicated grocery deals website offering substantial discounts to consumers on food, beverages, home and personal care, baby products and pet food.
2. Resolution of discontinued operations preferential payment claim – the liquidators of a discontinued operations customer Leading Solutions Ltd sought recovery of an amount of \$1,238,811 on the grounds that those monies were allegedly received by Cellnet as an unfair preference in the 6 months prior to Leading Solutions being put into administration in October 2009. This claim was settled on 8 July 2011.
3. Declaration of dividend – a dividend was declared on 14 July 2011. It consists of a final dividend of 1.0 cents per share and also a special dividend of 1.5 cents per share both of which will be fully franked and payable on 17 August 2011.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2011

### 26. Parent entity information

	2011 \$000s	2010 \$000s
Current assets	31,804	33,113
Total assets	38,479	51,570
Current liabilities	8,117	29,528
Total liabilities	21,839	29,799
Issued capital	37,861	41,993
Retained earnings	(21,884)	(20,805)
Reserve for own shares	(26)	(26)
Reserve for share based payment	689	609
Total shareholders equity	<b>16,640</b>	<b>21,771</b>
Profit of the parent entity after tax	(3,946)	1,965
Total comprehensive income of the parent entity	<b>(3,946)</b>	<b>1,965</b>

The parent has not issued any guarantees in relation to the debts of its subsidiaries and has no contingent liabilities or contractual obligations as at 30 June 2011.

### 27. Contributed equity and reserves

#### (a) Share Capital

	Consolidated	
	2011 No. Of shares	2010 No. Of shares
Ordinary shares on issue	73,502,500	76,839,094
Directors restricted shares cancelled*	-	(2,500,000)
Directors restricted shares issued*	-	2,000,000
Share buy back	(12,238,767)	(2,836,594)
On issue at 30 June	<b>61,263,733</b>	<b>73,502,500</b>
Ordinary shares Issued and fully paid	<b>59,263,733</b>	<b>71,502,500</b>

\*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	
	2011 \$000s	2010 \$000s
Ordinary shares on issue	41,933	42,849
Share buy back	(4,132)	(856)
	<b>37,861</b>	<b>41,993</b>

#### (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.



**Notes to the Financial Statements (continued)**

For the year ended 30 June 2011

**27. Contributed equity and reserves (continued)**

**(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 2011 the consolidated entity held 107,110 of the Company's shares (2010: 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.

**(d) 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 adjusts 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, or issue new shares.

Management monitors 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 2011 and 2010 were as follows:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$000s</b>	<b>\$000s</b>
Net Assets	28,798	32,657
Total Assets	38,932	41,104
Capital adequacy ratio	<b>74.0%</b>	<b>79.4%</b>

**28. Dividends paid and proposed**

**(a) Recognised amounts**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$000s</b>	<b>\$000s</b>
Declared and fully paid during the year:		
Dividends on ordinary shares:		
Interim dividends for 2011: 1.0¢	699	-
	<b>699</b>	<b>-</b>

**(b) Unrecognised amounts**

Final franked dividend for 2011	<b>1,532</b>	<b>-</b>
---------------------------------	--------------	----------

After the reporting date, the above dividends were approved for payment. These amounts have not been recognised as a liability as at 30 June 2011 but will be brought to account during the 2012 financial year.

**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**28. Dividends paid and proposed (continued)**

**(c) Franking credit balance**

The amount of franking credits available for the subsequent financial year are:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$000s</b>	<b>\$000s</b>
Franking account balance as at the end of the financial year at 30% (2010:30%)	4,280	4,280
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	-	-
Franking debits that have arisen from the payment of dividends as at the end of the financial year	(300)	-
	<b>3,980</b>	<b>4,280</b>
The amount of franking credits available for future reporting periods:		
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognized as a distribution to equity holders during the period	(657)	-
	<b>3,323</b>	<b>4,280</b>

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 entity 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 1,531,593 (2010: nil). In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated entity has also assumed the benefit of nil (2010: nil) franking credits from its Australian wholly-owned subsidiaries during the year.

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2011

**29. Auditor remuneration**

	Consolidated	
	2011	2010
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 entity	102,000	109,800
Other services in relation to the entity and any other entity in the consolidated entity		
• Tax compliance	10,386	8,604
	<b>112,386</b>	<b>118,404</b>

**30. Cash flow statement reconciliation**

	Consolidated	
	2011	2010
Reconciliation of net profit after tax to net cash flows from operations:		
Net profit	1,041	1,472
Adjustments for:		
Depreciation	442	672
Interest received	-	-
Impairment loss investments	-	-
Write-down inventory	766	833
Write-off bad debts	(77)	52
Loss / (profit) on sale of property, plant & equipment	-	3
Share based payments expense	80	178
Dividend/interest income classified as investing cash flow	-	-
Foreign exchange (gain) / loss	134	174
Changes in assets and liabilities:		
(Increase) / decrease in trade and other receivables	647	10,511
(Increase) / decrease in inventories	(681)	474
(Increase) / decrease in current tax assets	4	184
(Increase) / decrease in deferred tax assets	(87)	26
(Decrease) / increase in trade and other payables	1,010	(13,651)
(Decrease) / increase in provisions	44	(244)
Net cash from operating activities	<b>3,323</b>	<b>684</b>

## **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 2011 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 2011.

On behalf of the Board



Alexander Beard  
Chairman  
Brisbane  
26 August 2011



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

## 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 consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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 complied with 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.



*Opinion*

In our opinion:

- a. 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 as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b. the financial report also complies with *international Financial Reporting Standards* as disclosed in Note 2.

**Report on the remuneration report**

We have audited the Remuneration Report included in pages 9 to 15 of the directors' report for the year ended 30 June 2011. 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.

*Opinion*

In our opinion, the Remuneration Report of Cellnet Group Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.

A stylized, handwritten signature of the Ernst &amp; Young firm, written in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Winna Brown'.

Winna Brown  
Partner  
Brisbane  
26 August 2011

## **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 (2<sup>nd</sup> 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: <http://www.cellnet.com.au/>. The Company reports annually on its 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

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 2.2  
The Chair should be an independent Director

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 and risk committee process operates in accordance with the audit and risk 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 8.4

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 approves all equity participation schemes.

**Corporate Governance Principles and Recommendations (2<sup>nd</sup> 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 11 October 2011

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

<b>Name</b>	<b>Ordinary shares held</b>	<b>% of capital held</b>
CVC Limited	28,472,046	46.50
Leagou Funds Management Pty Ltd	4,294,300	7.01
Bywater Investments Limited	3,360,000	5.49
Hesley Consultants Limited	2,800,000	4.57
Walter Stuart MacMillan Smith	2,000,000	3.27
Melambrook Pty Ltd	1,851,943	3.02
Chemical Trustee Ltd	1,820,000	2.97
Philadelphia Investments Pty Ltd	1,650,274	2.70
Yardley Holdings Limited	1,155,000	1.89
McNeil Nominees Pty Limited	850,000	1.39
TUP Pty Ltd (J Gibbs S/F a/c)	730,500	1.19
Citicorp Nominees Pty Limited	714,247	1.17
JH Nominees Australia Pty Ltd (Harry family super fund)	523,170	0.85
Dr Elisabeth Van Papenrecht	300,000	0.49
Colvic Pty Ltd	220,000	0.36
Syvest Pty Ltd	182,000	0.30
Mr Geoffery Brian McDonald & Mrs Mary Louise McDonald	151,707	0.25
Organisational Change Consultants Pty Ltd	140,000	0.23
Custodial Services Limited	126,870	0.21
Mrs Susan Holt	117,723	0.19
<b>Top 20 Holders</b>	<b>51,459,780</b>	<b>84.04</b>
<b>All other holders</b>	<b>9,771,602</b>	<b>15.96</b>
<b>All holders</b>	<b>61,231,382</b>	<b>100.00</b>

### 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:

<b>Shareholder</b>	<b>Shares per notice</b>
CVC Limited	28,472,046
Leagou Funds Management Pty Ltd	4,294,300
Bywater Investments Limited	3,360,000

### Distribution of equity security holders

<b>Category</b>	<b>Number of holders</b>
<b>1 – 1000</b>	69
<b>1,001 – 5,000</b>	765
<b>5001 – 10,000</b>	249
<b>10,001 – 50,000</b>	182
<b>50,001 – 100,000</b>	26
<b>100,001 and over</b>	23
	<b>1,314</b>

The number of shareholders holding less than a marketable parcel of ordinary shares is 13.

