Clever Communications Australia Limited

ACN 103 623 356

Appendix 4E

Preliminary Final Report

ASX Release

Clever business sale delivers for its shareholders

Melbourne, 25 August, 2010: Clever Communications Australia Limited ("Clever") (ASX:CVA), one of Australia's largest fixed wireless broadband network operators, today released its financial results for the year to 30 June 2010.

Chairman, Mr. David Wiliams said, "This year Clever generated profit after tax of $2.4m and EBITDA of $3.3m. The result was buoyed by the sale of Clever's non-core off-net business operations for $5 million cash, contributing a one-time profit of $1.6 million before tax, positioning the company to focus on its high-margin fixed wireless broadband products, and a profit of $0.8m before tax on the sale of its shares in BigAir Ltd. We believe the company is now well placed to capitalise on the increasing demand for high bandwidth, high speed, quality managed communication solutions."

Financial Highlights

- EPS increased 600% to 2.03 cents per share.
- EBITDA increased 97% to $3.3m.
- NPAT increased 650% to $2.4m.
- Operating revenues decreased 14% to $12.2m primarily due to the sale of the off-net business.
- NTA per share increased 48% to 2.1 cents per share.
- The company is debt free* and had significant cash reserves of $6.3m at 30 June 2010, having generated $1.4m in cash from operations during the year.
- Excess cash is being distributed to shareholders via a capital return of up to 6 cents per share with 4 cents per share paid in July 2010. A second payment of up to 2 cents per share may occur prior to the end of the year, subject to amongst other things, receipt by the company of the final proceeds from the sale of the off-net business and the directors resolving to proceed with the payment.

* Clever has $120,482 of finance lease liabilities as at 30 June 2010.

Operational Highlights

- Sale of non-core off-net business for $5m cash to People Telecommunications Pty Ltd. Clever received $3.75m on execution of the transaction in May 2010 and expects to receive a further payment of $1.25m in November 2010, subject to the successful transition of customer services to People Telecommunications by the end of October 2010.
- Signing of a number of new significant contracts during the year including a $1.5m 3-year contract in QLD and a $700,000 a year contract to provide managed internet services to the education sector.
- Extended network coverage and increased network capacity.
- Sold stake in rival carrier BigAir Group Ltd during the year for $1.35m, representing a profit of $771,000.

The Board and management see significant opportunities for consolidation within the telecommunications industry and believe that Clever is well positioned to capitalise on these opportunities.

The Board has decided that no dividend will be declared for the year.

David Williams
CHAIRMAN

Investor Information: Mr. Leigh Davis (0412 889 165)

Name of Entity: Clever Communications Australia Limited

Details of the reporting period

Current Period: 1 July 2009 – 30 June 2010

Previous Corresponding Period: 1 July 2008 – 30 June 2009

Results for announcement to the market

	$A'000	up/down	% movement
Revenues from ordinary activities	12,244	down	14%
Profit from ordinary activities after tax attributable to members	2,436	up	650%
Net profit for the period attributable to members	2,436	up	650%

Dividends (distributions)

Current Period:

No Final or Interim dividend has been declared or paid.

A Capital return of up to 6 cents per share was approved by a meeting of shareholders on 25 June 2010 (4 cents payable promptly, with payment made on 13 July 2010, and up to a further 2 cents payable before the end of the year on certain conditions being met and at the directors discretion).	4,796	up	N/A

Previous Corresponding Period:

No Final or Interim dividend was declared or paid.

No Capital return was declared or paid.

Statement of Financial Performance with notes

Refer to the accompanying Statement of Comprehensive Income and Notes to the Accounts.

Statement of Financial Position with notes

Refer to the accompanying Statement of Financial Position and Notes to the Accounts.

Statement of Cash Flow with notes

Refer to the accompanying Statement of Cash Flows and Notes to the Accounts.

Details of dividends/distributions

No dividends have been paid during the period and the directors do not recommend that a dividend be declared for the period.

On 25 June 2010 the Company held an Extraordinary General Meeting at which shareholders voted to approve a capital return of up to 6 cents per fully paid ordinary share. Clever Communications Australia Limited has 119,922,242 fully paid ordinary shares on issue and there are no other classes of shares on issue, nor have any unexpired options or convertible instruments been issued by the Company.

The Company proposed to pay the reduction of capital in 2 tranches. The first tranche of 4 cents per share, amounting to $4,796,890 was paid on 13 July 2010, with the company's shares trading on an 'ex' return of capital basis from 29 June 2010.

The Second tranche of up to 2 cents per share is subject to a number of conditions being met, including receipt by the company of the final proceeds from the sale of the off-net business, and the directors resolving to proceed with the payment.

At the reporting date the company has a current liability of $4,796,890, representing its obligation to pay shareholders the 4 cent capital reduction.

Details of dividends/distribution reinvestment plan

The Company does not have a dividend reinvestment plan.

Statement of Contributed Equity and Reserves

Refer to the accompanying Statement of Changes in Equity and Notes 22 & 23 of the accompanying Accounts.

Net tangible assets per security

	Current Period	Previous Corresponding Period
Net asset backing per share	5.4 cents	7.5 cents
Net tangible asset backing per share*	2.1 cents	1.4 cents

*Excludes goodwill on acquisition and other tangibles (refer to note 17 of attached accounts).

Control gained or lost over entities during the period

There were no changes in control over entities during the period.

Details of associates and joint venture entities

The company does not have an interest in any Associates or Joint Ventures.

Other significant information

During the year Clever sold its investment in BigAir Group Ltd for $1,350,721, which resulted in a profit before tax of $770,692.

The company also divested certain non-core operations and assets to People Telecommunications Pty Ltd, a subsidiary of M2 Telecommuncations Group Limited, on 1 May 2010 for $5 million cash consideration. Refer to Note 10 of the accompanying Accounts for further details.

The company has made early and full repayment of its commercial bill debt with ANZ Banking Group Limited in May 2010. All associated charges held by ANZ have been released. Since that date the company has been debt free other than for $120,482 in finance leases.

Commentary on Results

	Current Period	Previous Corresponding Period
Earnings per share	2.03 cents	0.29 cents

	$A'000	$A'000
Returns to shareholders:		
Dividends	nil	nil
Capital return	4,796	nil
Refer also attached financial statements (Directors' Report)		
Significant features of operating performance		
Income		
Revenue	12,244	14,276
Cost of Sales	(6,460)	(7,747)
Gross Profit	5,784	6,529
Other Income	2,337	23
Expenses		
Employee benefits	(3,304)	(3,531)
Marketing expenses	(45)	(9)
Occupancy expenses	(447)	(472)
Depreciation and amortisation expenses	(835)	(940)
Finance costs	(142)	(225)
Administrative expenses	(996)	(850)
Profit/(Loss) before restructuring and impairment costs	2,352	525
Restructuring costs	(70)	-
Impairment of available-for-sale investments	-	(200)
Net Profit/(Loss) before income tax	2,282	325
Income tax (expense)/benefit	154	-
Net result after income tax (expense) / benefit	**2,436**	**325**
Net result attributable to shareholders	**2,436**	**325**

Commentary of significant features of operating performance

The net result for the Consolidated Entity attributable to shareholders for the year ended 30 June 2010 is a profit of $2,455,713 (2009: profit of $324,960).

Revenue

Total revenue for the year was $12,244,207 (2009: $14,276,278). The decrease was caused primarily by the sale of the off-net business operations.

Depreciation and amortisation expense

Depreciation and amortisation costs were $834,664 (2009: $940,391). The decrease was primarily due to lower amortisation costs associated with the customer list disposed as part of the off-net business sale.

Other expenses

During the year the Consolidated Entity incurred costs to restructure its operations to improve its operational efficiency. Such costs totalled $70,000 and included redundancy payments and onerous lease costs.

Segment results

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The group operates exclusively in one operating segment, being the provision of telecommunications services in Australia.

Trends in performance

The company is being significantly restructured and refocused in 2010 following the sale of its off-net business operations. The company expects it will go through a short period of operating losses until this activity is completed in late 2010. The directors expect that the business will return to EBITDA in the range of $1.2m - $1.5m annualised during the six months to June 2011.

Other facts

There are no other factors which have affected the results in the period, or which are likely to affect the the results in the future.

Audit/review of accounts upon which this report is based

This report is based on accounts to which one of the following applies (tick one):

☒	The accounts have been audited (refer attached financial statements).	☐	The accounts have been subject to review (refer to attached financial statements)
☐	The accounts are in the process of being audited or subject to review.	☐	The accounts have not been audited or reviewed.

clever
communications australia

annualreport

for year ended 30 June 2010

Corporate **Information**

ACN 103 623 356

Directors

David J. Williams	Chairman
Scott M. Carter	Managing Director
Philip J. Powell	Non-executive Director
Timothy I. Watson	Non-executive Director

Company Secretary

Leigh S. Davis

Registered Office

Level 5, 257 Collins Street,
Melbourne, Victoria, Australia

Principal Place of Business

Level 5, 257 Collins Street,
Melbourne, Victoria, Australia

Phone: 1300 253 837
Facsimile: 1300 784 453

www.clevercomms.com

Share Register

Computershare Limited

Yarra Falls, 452 Johnston Street,
Abbotsford, Victoria, Australia

Phone: 1300 850 505

Clever Communications Australia Limited
shares are listed on the Australian Stock Exchange (ASX).

Auditors

Ernst & Young
8 Exhibition Street,
Melbourne, Victoria, Australia

Table **Of Contents**

Letter **from the Chairman**

"The sale of Clever's non-core off-net business has allowed the company to focus on the delivery of high value, high margin fixed wireless broadband services at the same time as paying off all bank debt and making a large capital return to shareholders."

David Williams, Chairman

Dear **Shareholders**

I am delighted to report that your board and management team have continued to improve the financial and commercial position of Clever Communications Australia Limited (Clever) during the financial year.

Key company achievements during this financial year include:

- Clever sold its non-core off-net business to People Telecommunications Pty Ltd (a wholly owned subsidiary of M2 Telecommunications Group Ltd) for a cash consideration of $5 million. The sale of this portion of the business has allowed the company to focus on the delivery of high value, high margin fixed wireless broadband services.
- The sale of the off-net business has allowed Clever to return surplus cash of up to 6 cents per share, paid in two tranches. The first of two tranches was received by shareholders on 13 July to the value of $0.04 per share. The second tranche of up to $0.02 per share may be paid before the end of the year.
- A portion of the proceeds generated from the sale, plus existing cash on hand, enabled Clever to clear its long-standing commercial bill facility with ANZ Bank on 26 May 2010. Since that date, the company has been debt free, apart from $120,482 in finance leases.
- Clever sold off its investment in BigAir Group Limited (BigAir), which resulted in a profit before tax of $770,692.

Clever continues to make headway targeting industry, business and government verticals. In November 2009, Clever won a $700,000 per annum contract to provide managed internet services to a large number of education facilities for which billing commenced in March 2010. In December 2009,Clever won a $1.5 million, three year contract to provide fixed wireless services in Queensland. Clever's competitive advantage to winning this contract included the company's extensive network coverage in Queensland and the ability to deliver high bandwidth services where equivalent terrestrial broadband services were not accessible.

Clever continues to explore opportunities for further network expansion. Continued scrutiny of the wireless demand register, plus meetings with and feedback from our valued partners will drive the network expansion program. In the coming months we hope to make announcements regarding network expansion in locations that will deliver increased sales and profitability.

I would like to thank our partners, staff and shareholders for their continued support throughout the year and we look forward to 2011 being another successful year.

David Williams
Chairman

Clever Broadband **the Smart Choice for Business**

Clever Communications Australia Limited owns and operates one of Australia's largest fixed wireless networks. Clever broadband is a fixed location, symmetric access solution available exclusively to businesses requiring high-speed, high availability bandwidth.

The Clever network spans CBD and metropolitan Melbourne, Sydney, Brisbane and Adelaide. Clever operates a carrier-diverse, high-availability internet protocol (IP) network that interconnects with Australia's major telecommunication carriers under wholesale supply arrangements to deliver data solutions across the business, education and health sectors.

There are many features to Clever's fixed wireless broadband service:

- Intra-city and Inter-capital connections.
- 512Kbps to 100Mbps+ symmetric bandwidth internet access with usage based or unlimited data plans.
- Choice of contended and dedicated service options (10:1, 4:1 and 1:1).
- Layer 2 and Layer 2/3 MPLS Private Networks.
- Multiple VLAN(s) supported across the network.
- Fast installation of less than 5 business days. Express installation is available in 48 hours.

Extensive opportunities exist along the eastern seaboard in locations that have technical limitations or restrictions such as copper pair gain, exchange distance, or lack of fibre build. These limitations hamper access to high bandwidth, symmetric broadband.

Clever **Solutions**

Clever broadband can be used to overcome technology challenges, and support commercial applications, as described below:

- ***Copper distance limitations.*** Businesses in metropolitan areas are often restricted in their choice and speed of broadband due to RIM/pair gain technology issues. Clever fixed wireless broadband is deployed completely independent of other carrier infrastructure, making connectivity to high speed broadband, up to 100Mbps/100Mbps, in Clever's network coverage areas possible.
- ***Fibre pre-build.*** Fibre deployment in areas where fibre isn't readily available can take weeks, if not months. Clever wireless is a viable solution that takes just 5 working days to deliver and can connect businesses to the internet or other offices while their primary service is installed.
- ***Network Redundancy.*** With businesses heavily reliant on the internet and VPN to communicate with customers, staff and industry peers, Clever wireless provides additional security to minimise network downtime and business disruption should the primary link be disconnected.
- ***Rapid Deployment.*** Clever broadband is typically installed within 5 days upon receipt of an order. Businesses requiring urgent broadband can request Clever's FastTrack service, with service installations expedited to just 2 business days.
- ***Short term service.*** Many businesses require short-term coverage to address the need for temporary internet connectivity. This need arises for customers awaiting the connection of an alternate technology, or they have set up temporary business dwellings such as trade show stands, outdoor events or more. Clever can install and de-install services in as little as 2 business days.
- ***Mission-critical applications.*** Clever fixed wireless broadband is configured to support multiple VLANs, making it easy to host a mix of applications such as Voice over IP, video conferencing, on-location servers, and media streaming.

Directors' **Report**

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

Directors

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

Names, **qualifications, experience and special responsibilities**

D. Williams (Non-executive Chairman)

Mr. Williams has more than 20 years experience in providing corporate advisory services. Mr. Williams holds an Honours and Masters degree in Economics.

During the past 3 years Mr. Williams has also served as a director of the following other public companies:

- Medical Developments International Limited
- Amore Foods Limited
- Kidder Williams Limited
- Prime Retirement and Aged Care Management Limited

P. Powell (Non-executive)

Mr. Powell commenced working in investment banking in 1996 at Hambros Corporate Finance following 10 years industry experience with a listed public company, primarily in finance and administration roles. Mr. Powell holds a Bachelor of Commerce degree (Honours) from the University of Melbourne, is a Chartered Accountant and a Fellow of the Financial Services Institute of Australasia. During the past 3 years Mr. Powell has also served as a director of the following other public companies:

- Australian Property Custodian Holdings Limited
- Amore Foods Limited
- Kidder Williams Limited
- Prime Retirement and Aged Care Management Limited

T. Watson (Non-executive) Appointed 26 August 2009

Mr. Watson has more than 25 years' experience in the IT&T industry. He holds a Bachelors degree in Computing and has worked in senior roles with companies such as KPMG, PricewaterhouseCoopers, and Microsoft Australia with specific exposure to banking, telecommunications and the manufacturing sectors. He co-founded Activ Australia Pty Ltd, a telecommunications company of which he was CEO from 1996 until 2006 when Clever Communications Australia Limited acquired the company.

S. Carter (Managing Director)

Mr. Carter has over 15 years' experience in the telecommunications industry and prior to joining Clever held the position of General Manager – Wholesale for PowerTel Limited.

After a decade with Hutchison Telecoms where he worked with global brands including Orange and 3, Mr. Carter joined Request Broadband, one of the first business-grade broadband providers in Australia. As Director of Sales, he successfully combined his deep understanding of the dynamics of Australia's business telecommunications market with his experience in developing multi-channel sales strategies and within 3 years he built up a successful business that led to the company's acquisition by PowerTel Limited in 2004. Following the acquisition, Mr. Carter was promoted to the role of General Manager, PowerTel Wholesale where he held responsibility for the overall strategy and growth of the $130m division.

PowerTel was acquired by Telecom New Zealand in 2007, after which Mr. Carter joined Clever Communications Australia Limited as Managing Director and Executive Director.

Interests **in the shares and options of the company**

As at the date of this report, the interests of the directors in the shares and options of Clever Communications Australia Limited were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
D. Williams*	7,180,000	-
S. Carter	600,000	-
P. Powell*	2,940,000	-
T. Watson	12,000,000	-

* Both Mr. Williams and Mr. Powell are directors of Kidder Williams Limited which holds 2,500,000 shares in Clever Communications Australia Limited. These shares are included in the total number of shares held by both directors.

Company Secretary

L.S. Davis B.Bus (Acctng) CPA MBA (London) GAICD

Mr. Davis has been the Company Secretary of Clever Communications Australia Limited since 2 June 2008.

He is a Certified Practising Accountant (CPA) with over 15 years' experience.

Principal **Activities**

The consolidated entity's principal activity in the course of the financial year was providing voice and data communications services to the business market.

During the year the consolidated entity sold certain non-core business assets to People Telecommunications Pty Ltd (a subsidiary of M2 Telecommunications Group Ltd). In doing so the entity has ceased providing voice services and materially reduced the amount of data communications services it provides to the business market. Apart from this asset sale there was no significant change in the nature of the business activities of the consolidated entity during the year.

Operating **and Financial Review**

Group **Overview**

Clever Communications Australia Limited (Clever) is a licensed, telecommunications carrier. The company specialises in providing broadband Internet, Virtual Private Networks (VPNs), security and application services to a range of customers in the Corporate, Small to Medium Enterprise (SME) and Small Office Markets. Clever owns and operates one of Australia's largest fixed wireless networks with fixed wireless coverage in Sydney, Melbourne, Adelaide and Brisbane, and interconnects with leading tier one and two service providers to deliver data services nationally.

Operating **Results for the Year**

In April 2010 the company announced that it sold its non-core off-net business operations for $5 million cash, contributing a one-time profit of $1.6 million before tax, positioning it to focus on its high-margin fixed wireless broadband products. Management believe the company is now well placed to capitalise on the increasing demand for high bandwidth, high speed, quality managed communication solutions.

Key highlights include:

- EPS increased 600% to 2.03 cents per share.
- EBITDA increased 97% to $3.3m.
- NPAT increased 650% to $2.4m.
- Operating revenues decreased 14% to $12.2m primarily due to the sale of the off-net business.
- NTA per share increased 48% to 2.1 cents per share.
- Sale of non-core off-net business for $5m cash to People Telecommunications Pty Ltd.
- The company is debt free* and had significant cash reserves of $6.3m at 30 June 2010, having generated $1.4m in cash from operations during the year.
- Excess cash is being distributed to shareholders via a capital return of up to 6 cents per share with 4 cents per share paid in July 2010. A second payment of up to 2 cents per share may occur prior to the end of the calendar year 2010, subject to amongst other things, receipt by the company of the final $1.25m proceeds from the sale of the off-net business and the directors resolving to proceed with the payment.
- Signing of a number of new significant contracts during the year including a $1.5m 3-year contract in QLD and a $700,000 a year contract to provide managed internet services to the education sector.
- Extended network coverage and increased network capacity.
- Sale of stake in rival carrier BigAir Group Ltd during the year for $1.35m, realising a profit of $771,000 before tax.

* Clever has $120,482 of finance lease liabilities as at 30 June 2010.

The Group is pleased to report that the company's performance has started to reflect the many initiatives put in place by management. This is reflected in the significant improvement in most financial measures for the current financial year.

	2010	2009	2008	2007	2006
Basic earnings per share (cents)	2.03	0.29	(3.36)	(0.34)	(0.98)
Return on assets (%)	16.3%	22.3%	(24.6%)	(1.7%)	(5.5%)
Return on book equity (%)	37.4%	3.6%	(45.0%)	(2.7%)	(7.8%)
Net debt/equity ratio (%)	0.0%	0.0%	2.3%	4.9%	0.0%

The Board and management see significant opportunities for consolidation within the telecommunications industry and believe that Clever is well positioned to capitalise on these opportunities.

Operational **Performance**

Year-on-year operating revenues declined by 14% to $12.2m primarily due to the sale of the off-net business operations. The operating profit of $2.35m before restructuring costs and tax also includes a number of one-time items:

- Gain on sale of off-net business: $1.56m.
- Gain on sale of available-for-sale investments: $771,000.
- Write down of Property, Plant and Equipment: $155,000.

Significant **Changes in the State of Affairs**

During the year Clever sold its investment in BigAir Group Ltd for $1,350,721, which resulted in a profit before tax of $770,692.

The company also divested certain non-core operations and assets to People Telecommunications Pty Ltd on 1 May 2010 for cash consideration. Refer to Note 10 of the accompanying Accounts for further details.

Clever Communications Australia Limited has made early and full repayment of its commercial bill debt with ANZ Banking Group Limited in May 2010 and all associated charges held by ANZ have been released. The company has been debt free since that date other than for finance leases ($120,482 at 30 June 2010).

As a result of significant cash reserves in excess of the needs of the group's operational working capital requirements, the directors announced a capital return of up to 6 cents per share for all fully paid ordinary shares of the company. The capital return is planned in two tranches. The first tranche involved a payment of 4 cents per share and was payable promptly after approval of the capital return programme by the company's shareholders, approval for which was received at a meeting of shareholders on 23 June 2010. The amount was paid to the company's shareholders on 13 July 2010. The second tranche, up to a maximum of 2 cents per share as determined by the company's directors, is subject to a number of conditions including the company receiving the final proceeds from the sale of the off-net resale business.

During the financial year there were no other significant changes in the state of affairs of the consolidated entity.

Significant **Events after the Balance Date**

On 13 July 2010 the company made payment of the first tranche of its capital return programme. This amounted to a total payment of $4,796,890.

Likely **Developments and Expected Results**

Recent success in large customer opportunities will see Clever undertake significant network expansion to support both contracted customer revenues and anticipated future growth. This will further enhance the current network coverage and expand Clever's market opportunities.

Following the sale of its non-core off-net operations to People Telecommunications Pty Ltd in May 2010 management are currently focused on restructuring the remaining business operations to achieve operating efficiencies to both drive business profitability and provide a platform for future growth of the newly re-focused business.

Clever is well placed to participate in industry consolidation and will continue to explore value-enhancing opportunities.

Share **Options**

Unissued Shares

As at the date of this report, there were no unissued ordinary shares under options (none at the reporting date). Refer to the remuneration report for further details of options.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

Shares issued as a result of the exercise of options

There were no options exercised during the financial year.

Indemnification **and Insurance of Directors and Officers**

Clever Communications Australia Limited maintains a Directors and Officers insurance policy that, subject to some exceptions provides insurance cover to past, present and future directors and officers of the consolidated entity and its subsidiaries. The company has paid a premium for the policy. The contract of insurance prohibits disclosure of the amount of the premium and the nature of liabilities insured. The policy is effective from 1 November 2009 to 1 November 2010.

In addition, under the Constitution of the company, and to the extent permitted by law, each director of the company is indemnified by the company against liability incurred to another person (other than the company or related body corporate) except where the liability arises out of conduct involving a lack of good faith. Accordingly each director is indemnified against any liability for costs and expenses incurred by the director in defending proceedings, whether civil or criminal, in which judgement is given in favour of the director or in which the director is acquitted, or in connection with an application in relation to such proceedings in which a court grants relief to the officer under the Corporations Act 2001 (Cth.).

The company has not otherwise during or since the financial year, indemnified or agreed to indemnify a director or auditor of the company or any related body corporate against a liability incurred as a director or auditor.

Directors' **Meetings**

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Board of Directors' Meetings		Meetings of Audit Committee		Meetings of Remuneration & Nominations Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
D. Williams	15	12	2	2	2	2
S. Carter	15	15	-	-	-	-
P. Powell	15	15	2	2	2	2
T. Watson	13	13	1	1	1	1

Committee **Membership**

As at the date of this report, the company had an Audit Committee, and a Remuneration & Nominations Committee of the Board of Directors.

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

Audit	Remuneration & Nominations
P. Powell (Chairman)	D. Williams (Chairman)
D. Williams	P. Powell – resigned 15 March 2010
T. Watson – appointed 15 March 2010	T. Watson – appointed 15 March 2010

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest whole dollar (where rounding is applicable) under the option available to the company under ASIC CO 98/0100. The company is an entity to which the Class Order applies.

Auditor **Independence and Non-Audit Services**

The directors received the following declaration from the auditor of Clever Communications Australia Limited.

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Auditor's Independence Declaration to the Directors of Clever Communications Australia Limited

In relation to our audit of the financial report of Clever Communications Australia Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Painter

Stuart Painter
Partner
25 August 2010

Liability limited by a scheme approved under Professional Standards Legislation

Non-Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. 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:

	$
Tax compliance services	8,500
Professional advice	19,500
Special audits and assurance related services	8,982
	36,982

Remuneration Report (audited)

This remuneration report for the year ended 30 June 2010 outlines the remuneration arrangements of the company and the consolidated entity in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

For the purposes of this report, the term "executive" includes the Chief Executive Officer (CEO), executive directors, senior executives, general managers and secretaries of the Parent and the Group 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. Board oversight of remuneration
4. Non-executive director remuneration arrangements
5. Executive remuneration arrangements
6. Executive contractual arrangements
7. Equity instruments disclosures

1. Individual key management personnel disclosures

Details of KMP of the Parent and Group are set out below.

Key management personnel

(i) Directors

D.J. Williams	Chairman (non-executive)
P.J. Powell	Director (non-executive)
T.I. Watson	Director (non-executive)

(ii) Executives

S.M. Carter	Managing Director
L.S. Davis	Chief Financial Officer and Company Secretary
G. Evans	General Manager - Sales and Marketing – resigned 4 December 2009

There were no other changes to KMP after reporting date and before the date the financial report was authorised for issue.

2. Remuneration at a glance

Remuneration strategy under review

During the 2010 financial year, the government introduced various proposals affecting employee remuneration, including legislation in respect of employee share schemes and termination payments.

During the 2011 financial year, the company will be undertaking a review of its executive remuneration strategy to ensure the approach reflects business needs, shareholder views and contemporary market practice.

3. Board **oversight of remuneration**

Remuneration committee

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

The remuneration committee assesses the appropriateness of the nature and amount of remuneration of NEDs and executives on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing director and executive team. In determining the level and composition of executive remuneration, the remuneration committee may engage external consultants to provide independent advice where it considers it appropriate.

The remuneration committee comprises two independent NEDs.

Remuneration approval process

The board approves the remuneration arrangements of the CEO and executives and all awards made under both the short-term incentive (STI) plan and the long-term incentive (LTI) plan, following recommendations from the remuneration committee. The board also sets the aggregate remuneration of NEDs which is then subject to shareholder approval.

Remuneration strategy

Clever Communications Australia Limited's remuneration strategy is designed to attract, motivate and retain employees and NEDs by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

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

- Are aligned to the Group's business strategy;
- Offer competitive remuneration benchmarked against the external market;
- Provide strong linkage between individual and Group performance and rewards;
- Align the interests of executives with shareholders through measuring total shareholder return (TSR).

Remuneration structure

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

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

Remuneration policy

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

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies. The board may consider advice from external consultants when undertaking the annual review process.

The company's constitution and the ASX listing rules specify that the NED fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2007 annual general meeting (AGM) held on 30 November 2007 when shareholders approved an aggregate fee pool of $300,000 per year.

The board will not seek any increase for the NED pool at the 2010 AGM.

Structure

The remuneration of NEDs consists of directors' fees, which includes attendance at committee meetings. NEDs do not receive retirement benefits other than compulsory superannuation scheme contributions, nor do they participate in any incentive programs.

Each NED receives a base fee of $30,000 for being a director of the company.

NEDs are encouraged to hold shares in the company. This is in line with the company's overall remuneration philosophy and aligns NEDs with shareholder interests.

The remuneration of NEDs for the year ended 30 June 2010 and 30 June 2009 is detailed in table 1 and 2 respectively of this report.

5. Executive **remuneration arrangements**

Remuneration levels and mix

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and aligned with market practice for comparable executive roles.

Structure

In the 2010 financial year, the executive remuneration framework consisted of the following components:

- Fixed remuneration; and
- Variable remuneration.

The proportion of fixed remuneration and variable remuneration is established for each executive by the Remuneration & Nominations Committee.

Fixed Remuneration

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

Fixed remuneration is reviewed annually by the Remuneration & Nominations Committee and the process consists of a review of company-wide and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

Variable Remuneration – Short-Term Incentive (STI)

The objective of the STI program is to link the achievement of the company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the company is reasonable in the circumstances.

Actual STI payments granted to each executive depend on the extent to which specific operating targets set at the beginning of the financial year are met.

On an annual basis, after consideration of performance against KPI's, an overall performance rating for the company is determined. The individual performance of each executive is also rated and both ratings are taken into account when determining the amount, if any, of the short term incentive pool is allocated to each executive.

The aggregate of annual STI payments available for executives across the company is subject to the approval of the Remuneration & Nominations Committee. Payments made are usually delivered as a cash bonus.

6. Executive **contractual arrangements**

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are provided below.

Managing Director

The Managing Director, Mr. S. Carter, is employed under a rolling contract.

The current employment contract commenced on 9 August 2007. Under the terms of the present contract:

- Mr. Carter receives fixed remuneration of $238,532 per annum.
- Mr. Carter may resign from his position and thus terminate this contract by giving 4 months written notice.
- The company may terminate this employment agreement by providing 4 months written notice or providing payment in lieu of the notice period (based on the fixed component of Mr. Carter's remuneration).
- The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

Other KMP (standard contracts)

All other KMP have rolling contracts.

The company may terminate the executive's employment agreement by providing 3 months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

Remuneration **of Key Management Personnel**

Table 1: Remuneration for the year ended 30 June 2010

	Short-term				Post Employ-ment	Share-based Payment		
	Salary and Fees $	Cash Bonus $	Non-cash Benefits $	Other $	Super-annuation $	Options $	Total $	Perform-ance Related %
Non-executive directors								
D. Williams	23,333	-	-	-	2,100	-	25,433	0.0%
P. Powell	23,333	-	-	-	2,100	-	25,433	0.0%
T. Watson*	20,322	-	-	-	1,829	-	22,151	0.0%
Sub-total non-executive directors	66,988	-	-	-	6,029	-	73,017	
Executive directors								
S. Carter	238,532	-	-	3,458	21,468	1,434	264,892	0.5%

Table 1: Remuneration for the year ended 30 June 2010 (continued)

	Short-term				Post Employ-ment	Share-based Payment		
	Salary and Fees $	Cash Bonus $	Non-cash Benefits $	Other $	Super-annuation $	Options $	Total $	Perform-ance Related %
Other key management personnel								
L. Davis	151,376	-	-	1,576	13,624	-	166,576	0.0%
G. Evans#	100,726	-	-	-	8,321	-	109,047	0.0%
Sub-total executive KMP	490,634	-	-	5,034	43,413	1,434	540,515	
Totals	557,622	-	-	5,034	49,442	1,434	613,532	

* Appointed 26 August 2009. # Resigned 4 December 2009.

Table 2: Remuneration for the year ended 30 June 2009

	Short-term				Post Employ-ment	Share-based Payment		
	Salary and Fees $	Cash Bonus $	Non-cash Benefit $	Other $	Super-annuation $	Options $	Total $	Perfor-mance Related %
Non-executive directors								
D. Williams	15,000	-	-	-	1,350	-	16,350	0.0%
P. Powell	15,000	-	-	-	1,350	-	16,350	0.0%
Sub-total non-executive directors	30,000	-	-	-	2,700	-	32,700	
Executive directors								
S. Carter	238,532	-	-	-	21,468	8,940	268,940	3.3%
Other key management personnel								
L. Davis	151,376	-	-	-	13,624	-	165,000	0.0%
G. Evans	181,652	-	-	-	16,348	-	198,000	0.0%
Sub-total executive KMP	571,560	-	-	-	51,440	8,940	631,940	
Totals	601,560	-	-	-	54,140	8,940	664,640	

Compensation options: There were no options granted and vested during the year

7. Equity **instruments**

There were no options awarded and vested during the year.

Table 3: Value of options awarded, exercised and lapsed during the year^

	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed or expired during the year $	Total value of options granted, exercised, expired and lapsed during the year $	Remuneration consisting of options for the year %
D. Williams	-	-	-	-	0.0%
P. Powell	-	-	-	-	0.0%
T. Watson*	-	-	-	-	0.0%
S. Carter	-	-	(56,446)	(56,446)	0.5%

* Appointed 26 August 2009 ^ For details on the valuation of the options, including models and assumptions used, please refer to note 26.

There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

There were no shares issued on exercise of options during the year.

Signed in accordance with a resolution of the directors.

D. J. Williams
Chairman
25 August 2010

Corporate **Governance Statement**

The board of directors of Clever Communications Australia Limited is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The board guides and monitors the business and affairs of Clever Communications Australia Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the company's compliance with the CGS's recommendations.

	Recommendation	Comply Yes / No	Reference / Explanation
Principle 1 - Lay solid foundations for management and oversight			
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.	Yes	Page 15 & 16
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 16
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	Page 15
Principle 2 - Structure the board to add value			
2.1	A majority of the board should be independent directors.	Yes	Page 16
2.2	The chair should be an independent director.	Yes	Page 16
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes	Page 16
2.4	The board should establish a Nominations committee.	Yes	Page 16
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Page 16
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	Page 16
Principle 3 - Promote ethical and responsible decision-making			
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the Company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Page 14
3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Yes	Page 17
3.3	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	Page 17
Principle 4 - Safeguard integrity in financial reporting			
4.1	The board should establish an audit committee.	Yes	Page 17
4.2	The audit committee should be structured so that it: • consists only non-executive directors; • consists of a majority of independent directors; • is chaired by an independent chair, who is not chair of the Board; • has at least three members.	Yes	Page 17
4.3	The audit committee should have a formal charter.	Yes	Page 17
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes	Page 17

	Recommendation	Comply Yes / No	Reference / Explanation
Principle 5 - Make timely and balanced disclosure			
5.1	Companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Adherence to these policies is monitored by the board.
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	Page 16
Principle 6 - Respect the rights of shareholders			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	The company utilises the services of Computershare Share Registry Services to assist it with managing effective communication with its shareholders.
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	Page 19
Principle 7 - Recognise and manage risk			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Page 18
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	Yes	Page 18
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 18
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	Page 18
Principle 8 – Remunerate fairly and responsibly			
8.1	The board should establish a remuneration committee.	Yes	Page 18
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Refer to Remuneration Report on pages 9-13
8.3	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	Refer to Remuneration Report on pages 9-13

Clever Communications Australia Limited's corporate governance practices were in place throughout the year ended 30 June 2010 with the exception of compliance with Principle 4.2 above. In respect to principle 4.2 the Audit Committee consisted only of two members until 15 March 2010 when an additional non-executive director was appointed to the committee. This was necessary because until the year just ended the company only had two non-executive directors.

Board **Functions**

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

The responsibility for the operation and administration of the company is delegated, by the Board, to the Managing Director and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the company, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees:

- Audit
- Remuneration & Nominations

The roles and responsibilities of these committees are discussed throughout this Corporate Governance Statement.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risk identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk;
- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- Implementation of budgets by management and monitoring progress against budget via the establishment and reporting of both financial and non financial key performance indicators.

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
- Reporting to shareholders.

Structure **of the Board**

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are included in the Directors' Report. Directors of Clever Communications Australia Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, 'materiality' is considered from both the group and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the Group's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Clever Communications Australia Limited are considered to be independent:

Name	Position
D. Williams	Chairman, Non-executive director
P. Powell	Non-executive director
T. Watson	Non-executive director

The board recognises the Corporate Governance Council's recommendation that the Chair should be an independent director and notes that Mr. Williams is considered independent.

There are procedures in place, agreed by the board, to enable directors in furtherance of their duties to seek independent professional advice at the company's expense.

The term in office held by each director in office at the date of this report is as follows:

Name	Term in Office
D. Williams	3 years
P. Powell	3 years
T. Watson	1 year
S. Carter	3 years

Performance

The performance of the board and key executives is reviewed regularly against both measurable and qualitative indicators.

The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Clever Communications Australia Limited.

Directors whose performance is consistently unsatisfactory may be asked to retire.

Trading Policy

Directors and executives are encouraged to own shares in the company purchased in accordance with the company's Securities Trading policy. Under this policy, an executive or director must not trade in any securities of the company at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

As required by the ASX Listing Rules, the company notifies the ASX of any transaction conducted by directors in the securities of the company.

Remuneration **& Nominations Committee**

The Remuneration & Nominations Committee's role is to consider the structure and balance of the Board including, when necessary, selecting candidates for the position of director as well as providing maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately.

The committee's primary functions are:

- to set director competence standards and review Board succession plans;
- to evaluate the Board's, committees' and individual director's performance;

To make recommendations to the Board on:

- executive remuneration and incentive policies;
- the company's recruitment, retention, performance management and termination policies for senior management;
- medium and long term incentive plans; and
- the remuneration framework for directors.

The Remuneration & Nominations committee comprised the following members throughout the year:

D. Williams (Committee Chairman)

P. Powell – resigned 15 March 2010

T. Watson – appointed 15 March 2010

For details of directors' attendance at meetings of the Remuneration & Nominations committee, refer to the directors' report.

The Remuneration & Nominations committee has adopted a charter that details the role and responsibilities of the committee and its members. All members of the Remuneration & Nominations committee were non-executive directors for the year ended 30 June 2010.

Audit **Committee**

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit Committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit Committee are non-executive directors.

The members of the Audit Committee during the year were:

P. Powell (Committee Chairman)

D. Williams

T. Watson – appointed 15 March 2010

Qualifications of audit committee members

P. Powell is an experienced public company director and was the Chairman of the Audit Committee throughout the year.

D. Williams has significant experience in Corporate Finance. He is also director of a number of other public companies.

T. Watson has been a management consultant, sales director and has significant experience in senior roles within the IT&T industry.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to the directors' report.

In addition to the non-executive director members, Audit Committee meetings are attended by members of senior management and external auditors as appropriate.

Risk

The Board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the company's approach to creating long-term shareholder value.

In recognition of this, the board determines the company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. In doing so the board has taken the view that it is crucial for all board members to be a part of this process and as such, has not established a separate risk management committee.

The board oversees the assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management through the Managing Director, including responsibility for the day to day design and implementation of the company's risk management and internal control system. Management reports to the board on the company's key risks and the extent to which it believes these risks are being adequately managed.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses the company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.
- Underpinning these efforts is a comprehensive set of policies and procedures directed towards achieving the following objectives in relation to the requirements of Principle 7:
- Effectiveness and efficiency in the use of the company's resources.
- Compliance with applicable laws and regulations.
- Preparation of reliable published financial information.

Managing **Director and CFO Certification**

In accordance with section 295A of the Corporations Act, the Managing Director and Chief Financial Officer have provided a written statement to the board that:

- Their view provided on the company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the board.
- The company's risk management and internal compliance and control system is operating effectively in all material respects.

The board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the Managing Director and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

Remuneration

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the remuneration committee links the nature and amount of directors' and executives' remuneration to the company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives.
- Attraction of high quality management to the company.
- Performance incentives that allow executives to share in the success of Clever Communications Australia Limited.

For a full discussion of the company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the remuneration report, which is contained within the directors' report.

There is no scheme to provide retirement benefits to non-executive directors.

The board is responsible for determining and reviewing compensation arrangements for the directors themselves, the Managing Director and executive team. The board has established a Remuneration & Nominations committee, comprising two non-executive directors. Members of the Remuneration & Nominations committee throughout the year were:

D. Williams (Committee Chairman)

P. Powell – resigned 15 March 2010

T. Watson – appointed 15 March 2010

For details on the number of meetings of the Remuneration & Nominations committee held during the year and the attendees at those meetings, refer to the directors' report.

Shareholder **communication policy**

Pursuant to Principle 6, the company's objective is to promote effective communication with its shareholders at all times.

Clever Communications Australia Limited is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about the company's activities in a balanced and understandable way.
- Complying with continuous disclosure obligations contained in applicable ASX listing rules and the Corporations Act in Australia; and
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with Clever Communications Australia Limited.

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX;
- Through the distribution of the annual report and Notices of Annual General Meeting;
- Through shareholder meetings and investor relations presentations;
- Through letters and other forms of communications directly to shareholders; and
- By posting relevant information on the company's website www.clevercomms.com

The Company's website www.clevercomms.com has a dedicated Investor Relations section and for the purpose of publishing all important company information and relevant announcements made to the market.

The external auditors are required to attend the Annual General Meeting and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

Statement
of Comprehensive Income

For the year ended 30 June 2010	Note	Consolidated 2010 $	2009 $
Operating revenues	6	12,244,207	14,276,278
Cost of sales		(6,460,131)	(7,747,462)
Gross profit		5,784,076	6,528,816
Other income	6	2,336,560	23,330
Employee benefit expenses	7	(3,303,755)	(3,531,286)
Marketing expenses	7	(44,834)	(8,543)
Occupancy expenses	7	(447,446)	(471,529)
Administrative expenses	7	(996,286)	(850,790)
Depreciation and amortisation expenses	7	(834,664)	(940,391)
Finance costs	7	(141,614)	(224,796)
Profit from operations before restructuring costs and impairment		2,352,037	524,811
Restructuring costs	7	(70,000)	-
Impairment of available-for-sale investments		-	(199,851)
Profit from operations before income tax		2,282,037	324,960
Income tax (expense)/benefit	8	153,676	-
Net profit for the period		2,435,713	324,960
Attributable to:			
Members of the parent		2,435,713	324,960
Other comprehensive income			
Net fair value gains on available-for-sale-investments		-	130,211
Transferred realised gains to other income		(130,211)	-
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the period, net of tax		(130,211)	130,211
Total comprehensive income for the period		2,305,502	455,171
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	9	2.03	0.29
Diluted earnings per share	9	2.03	0.29

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

Statement
of Financial Position

As at 30 June 2010		Consolidated	
	Note	2010 $	2009 $
ASSETS			
Current Assets			
Cash and cash equivalents	12	**6,315,454**	2,694,073
Trade and other receivables	13	**2,724,126**	1,995,676
Inventories	14	**25,048**	34,352
Total Current Assets		**9,064,628**	4,724,101
Non-Current Assets			
Available-for-sale investments	15	**-**	710,241
Plant and equipment	16	**1,300,494**	1,428,304
Deferred tax assets	8	**519,959**	366,283
Goodwill and other intangible assets	17	**4,024,958**	7,317,929
Total Non-Current Assets		**5,845,411**	9,822,757
TOTAL ASSETS		**14,910,039**	14,546,858
LIABILITIES			
Current Liabilities			
Trade and other payables	18	**8,024,348**	3,092,156
Interest-bearing loans and borrowings	21	**120,482**	2,155,293
Provisions	19	**215,597**	144,690
Total Current Liabilities		**8,360,427**	5,392,139
Non-Current Liabilities			
Interest-bearing loans and borrowings	21	**-**	148,299
Provisions	20	**38,811**	5,665
Total Non-Current Liabilities		**38,811**	153,964
TOTAL LIABILITIES		**8,399,238**	5,546,103
NET ASSETS		**6,510,801**	9,000,755
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	22	**7,922,919**	12,719,809
Accumulated losses	23	**(1,477,464)**	(3,913,177)
Reserves	23	**65,346**	194,123
TOTAL EQUITY		**6,510,801**	9,000,755

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

Statement
of Changes in Equity

For the year ended 30 June 2010	Ordinary Shares $	Share options reserve $	Net unrealised gains reserve $	Accumulated losses $	Total $
At 1 July 2009	12,719,809	63,912	130,211	(3,913,177)	9,000,755
Profit for period	-	-	-	2,435,713	2,435,713
Other comprehensive income	-	-	(130,211)	-	(130,211)
Total comprehensive income for the year	-	-	(130,211)	2,435,713	2,305,502
Transactions with owners in their capacity as owners					
Capital return	(4,796,890)	-	-	-	(4,796,890)
Share-based payments	-	1,434	-	-	1,434
Balance at 30 June 2010	**7,922,919**	**65,346**	**-**	**(1,477,464)**	**6,510,801**
At 1 July 2008	11,929,779	54,972		(4,238,137)	7,746,614
Profit for period	-	-	-	324,960	324,960
Other comprehensive income	-	-	130,211	-	130,211
Total comprehensive income for the year	-	-	130,211	324,960	455,171
Transactions with owners in their capacity as owners					
Shares issued	790,030	-	-	-	790,030
Share-based payments		8,940	-	-	8,940
Balance at 30 June 2009	**12,719,809**	**63,912**	**130,211**	**(3,913,177)**	**9,000,755**

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

Statement
of Cash Flows

For the year ended 30 June 2010	Note	Consolidated 2010 $	2009 $
Cash flow from operating activities			
Receipts from customers (inclusive of GST)		14,356,236	15,894,957
Payments to suppliers and employees (inclusive of GST)		(12,935,304)	(14,196,488)
Interest paid		(111,457)	(301,949)
Interest received		82,623	89,877
Net cash flows from operating activities	12	1,392,098	1,486,397
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment		-	7,273
Purchase of property, plant and equipment		(648,160)	(317,021)
Proceeds from sale of off-net business	10	3,750,000	-
Acquisition of investment	27	-	(305,694)
Proceeds from sale of available for sale financial assets	15	1,350,722	-
Purchase of available for sale financial assets		-	(199,851)
Net cash flows from/(used in) investing activities		4,452,562	(815,293)
Cash flow from financing activities			
Repayment of borrowings from related parties		-	(99,376)
Repayment of borrowings	21	(2,000,000)	-
Payment of finance lease liabilities		(223,110)	(192,202)
Net cash flows from/(used in) financing activities		(2,223,110)	(291,578)
Net increase in cash and cash equivalents		3,621,550	379,526
Net foreign exchange differences		(169)	-
Cash and cash equivalents at beginning of period		2,694,073	2,314,547
Cash and cash equivalents at end of period	12	6,315,454	2,694,073

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

Notes **to the Financial Statements**

1 Corporate **information**

The financial report of Clever Communications Australia Limited (the company) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 23 August 2010.

Clever Communications Australia Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2 Summary **of significant accounting policies**

Basis **of preparation**

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

(a) Compliance **with IFRS**

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

(b) New **accounting standards and interpretations**

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009.

- AASB 3 Business Combinations (revised 2008) effective 1 July 2009
- AASB 7 Financial Instruments: Disclosures effective 1 January 2009
- AASB 8 Operating Segments effective 1 January 2009
- AASB 101 Presentation of Financial Statements (revised 2007) effective 1 January 2009
- AASB 123 Borrowing Costs (revised 2007) effective 1 January 2009
- AASB 127 Consolidated and Separate Financial Statements (revised 2008) effective 1 July 2009
- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations [AASB 2] effective 1 January 2009
- AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 effective 1 July 2009
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 January 2009
- AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 July 2009
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 January 2010
- AASB 2009-6 Amendments to Australian Accounting Standards operative for periods beginning on or after 1 January 2009 that end on or after 30 June 2009

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

AASB 3 Business Combinations

The revised standard introduced a number of changes to the accounting for business combinations. The key impact is the requirement to expense acquisition related costs as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 5, including the related revised comparative information.

AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

(ii) Australian 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 Group for the annual reporting period ending 30 June 2010, outlined in the table below:

Reference & Title	Details of New Standard / Amendment / Interpretation	Impact on Group	Application date for the Group *
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined. The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: • has primary responsibility for providing the goods or service; • has inventory risk; • has discretion in establishing prices; • bears the credit risk. The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in AASB 8 before aggregation for reporting purposes. The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.	(i)	1 July 2010
AASB 9 and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.	(i)	1 July 2013

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

Reference & Title	Details of New Standard / Amendment / Interpretation	Impact on Group	Application date for the Group *
AASB 2009-12 Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party	(i)	1 July 2011
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; and (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements. Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) for-profit entities in the private sector that have public accountability (as defined in this Standard); and (b) the Australian Government and State, Territory and Local Governments. The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) for-profit private sector entities that do not have public accountability; (b) all not-for-profit private sector entities; and public sector entities other than the Australian Government and State, Territory and Local Governments.	(i)	1 July 2013
AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	(i)	1 July 2010

*designates the beginning of the applicable annual reporting period unless otherwise stated.

(i) The adoption of this new standard, amendment or interpretation will not have a material impact on the Group's financial statements.

(c) Basis **of consolidation**

The consolidated financial statements comprise the financial statements of Clever Communications Australia Limited and its subsidiaries as outlined in note 24 as at and for the year ended 30 June each year (the Group).

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

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

Investments in subsidiaries held by Clever Communications Australia Limited are accounted for at cost less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note 2(d)).

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

(d) Business **combinations - refer note 27**

Subsequent to 1 July 2009

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group’s operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

Prior to 1 July 2009

The purchase method of accounting was used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost was measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments were issued in a business combination, the fair value of the instruments was their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments were recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which were measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired were recognised as goodwill. If the cost of acquisition was less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference was recognised as a gain in profit and loss, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration was deferred beyond 12 months, the amounts payable in the future were discounted to their present value as at the date of exchange. The discount rate used was the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) Operating **segments - refer note 5**

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 entity's 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. This includes start up operations, which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

An operating segment has been identified based on the information provided to the chief operating decision makers – being the executive management team.

An operating segment that meets the quantitative criteria as prescribed by AASB 8 is reported separately.

The Group operates exclusively in a single operating segment, namely Australian telecommunications services.

(f) Foreign **currency translation**

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(g) Cash **and cash equivalents - refer note 12**

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

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

(h) Trade **and other receivables - refer note 13**

Trade receivables, which generally have 14-30 day terms, are recognised initially at original invoiced amounts, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is recognised when there is objective evidence that the Group will not be able to collect the receivable.

(i) Inventories **- refer note 14**

Inventories are valued 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 necessary to make the sale.

(j) Investments **and other financial assets – refer notes 13, 15 & 17**

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

(j) Investments **and other financial assets – refer notes 13, 15 & 17 (continued)**

Loans and receivables - notes 13 & 21

Loans and receivables including loan notes are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

Available-for-Sale Investments – note 15

Available-for-sale investments are those non-derivative financial assets, principally equity securities that are designated as available-for-sale or are not classified as either financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(k) Plant **and equipment - refer note 16**

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. All other repairs and maintenance are recognised in profit or loss as incurred.

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

Office, computer and network equipment - over 2 to 5 years

Motor vehicles - over 5 years

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

Derecognition

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

(l) Leases **- refer note 16 & 21**

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

Group as lessee

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

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

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

(m) Goodwill **and Other Intangibles - refer note 17**

Goodwill

Goodwill acquired in a business combination is initially measured as the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

Clever Communications Australia Limited performs its impairment testing as at 30 June each year using a value in use, discounted cash flow methodology for the cash generating units to which goodwill has been allocated. Further details on the methodology and assumptions used are outlined in note 17.

(m) Goodwill **and Other Intangibles - refer note 17 (continued)**

Goodwill (continued)

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles other than Goodwill

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

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

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

Customer Lists

Customers lists acquired are recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. Such costs are amortised on a straight-line basis over the expected period of economic benefit derived from the customers acquired. Customer lists are reviewed for impairment at the end of the financial year and more frequently when an indication of impairment exists. Any impairment charge is recorded separately.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(n) Pensions **and other post-employment benefits**

The company contributes to superannuation funds on behalf of employees at the required statutory rates.

(o) Trade **and other payables - refer note 18**

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

(p) Interest-**bearing loans and borrowings - refer note 21**

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

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

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

Borrowing costs
Borrowing costs are recognised as an expense when incurred.

(q) Provisions **and employee benefits - refer note 19 & 20**

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

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

(q) Provisions **and employee benefits - refer note 19 & 20 (continued)**

Employee leave benefits

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

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

(ii) Long service leave

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

(r) Share-**based payment transactions - refer note 26**

(i) Equity settled transactions:

The Group provides benefits to its employees (including senior executives) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is currently an Employee Share Option Plan (ESOP) which provides benefits to directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26.

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

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

At each subsequent reporting date until vesting, the cumulative charge to profit or loss is the product of:

(i) the grant date fair value of the award;

(ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and

(iii) the expired portion of the vesting period.

The charge to profit or loss for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

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

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

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

(s) Contributed **equity - refer note 22**

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.

(t) Revenue **recognition - refer note 6**

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

(i) Installation and connection fees

Installation and connection fees revenues are deferred and recognised rateably over the average customer contract life. Incremental costs directly related to these revenues are also deferred and amortised over the average customer contract life. The Group segments these revenues between 'on-net' revenues and 'off-net' revenues. On-net revenue is derived from fees associated with services that are provided from the Group's wholly owned and operated fixed wireless access network. Off-net revenues are derived from services in connection with access networks that the Group purchases from third parties.

(ii) Access and usage fees

Revenue derived from service fees received for transmission on the network and usage fees are recognised in the period the service is provided. The Group segments these revenues between 'on-net' revenues and 'off-net' revenues. On-net revenue is derived from fees associated with services that are provided from the Group's wholly owned and operated fixed wireless access network. Off-net revenues are derived from services in connection with access networks that the Group purchases from third parties.

(iii) Sale of goods and asset sales

Revenue from the sale of goods and disposal of assets is recognised when there is persuasive evidence, usually in the form of an executed sales agreement at the time of delivery of the goods to customer or asset to the purchaser.

(iv) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(v) Other revenues

Other operating revenues are recognised as they are earned and goods or services provided.

(u) Income **tax and other taxes - refer note 8**

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

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

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

Tax consolidation legislation

Clever Communications Australia Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003.

(u) Income **tax and other taxes - refer note 8 (continued)**

Other taxes

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

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

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

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

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

(v) Earnings **per share - refer note 9**

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

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

3 Financial **risk management objectives and policies**

The Group's principal financial instruments comprise receivables, payables, commercial bills, finance leases, available-for-sale investments and cash and short-term deposits.

Risk **exposures and responses**

The Group manages its exposure to key financial risks, including interest rate risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, price risk, and liquidity risk. The Group 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 risk and assessments of market forecasts for interest rate. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, monitoring levels of exposure to price risk and assessments of market price volatility, liquidity risk is monitored through the development of future rolling cash flow forecasts.

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

Primary responsibility for identification and control of financial risks rests with the Audit Committee under the authority of the Board. The board reviews and agrees policies for managing each of the risks identified below, including hedging of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's commercial bills debt obligations, prior to repaying the debt in full. The level of debt is disclosed in note 21.

At reporting date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk.

	Consolidated 2010 $	2009 $
Financial Assets		
Cash and cash equivalents	**6,315,454**	2,694,073
	6,315,454	2,694,073
Financial Liabilities		
Commercial Bills	-	2,000,000
	-	2,000,000
Net exposure	**6,315,454**	694,073

Interest rate risk (continued)

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. At 30 June 2010, the Group had no borrowings. At 30 June 2009 the Group had borrowings of $2,000,000 with 13% being fixed interest rate debt. Fixed rate debt was comprised of finance leases.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, 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 2010, and at 30 June 2009, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit / (losses) and equity would have been affected as follows:

Judgements of reasonably possible movements*:	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2010 $	2009 $	2010 $	2009 $
Consolidated				
+1% (100 basis points)	63,155	6,941	63,155	6,941
-0.5% (50 basis points)	(31,577)	(3,470)	(31,577)	(3,470)

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The sensitivity is higher in 2010 than in 2009 for the consolidated entity because the group held higher levels of interest earning cash balances during the 2010 financial year.

* A 100 basis point increase and a 50 basis point decrease is used and represents management's assessment of the reasonably possible change in interest rates.

Foreign currency risk

The Group has no material exposures to foreign currency risk.

Price risk

The Group's previous exposure to price risk related to its investment in BigAir Group Ltd, whose securities are publicly traded on the ASX. (Refer to Note 15). During the year ended 30 June 2010 the Group sold its investment in BigAir Group Ltd.

The Group's current exposure to equity securities price risk is nil.

Credit risk

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

The Group does not hold any credit derivatives to offset its credit exposure.

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

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

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

There are no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of organisations to minimise the risk of default of counterparties.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of commercial bills, finance leases and committed available credit lines.

The table below reflects all contractual repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2010. For all obligations the respective undiscounted cash flows for respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2010.

Liquidity risk (continued)

The remaining contractual maturities of the Group's financial assets and liabilities are:

30 June 2010	<6 Months $	6-12 Months $	1-5 Years $	>5 Years $	Total $
Consolidated					
Financial assets					
Cash and cash equivalents	6,315,454	-	-	-	6,315,454
Trade and other receivables	2,724,126	-	-	-	2,724,126
	9,039,580	-	-	-	9,039,580
Consolidated					
Financial liabilities					
Total payables (refer note 18)	(8,024,348)	-	-	-	(8,024,348)
Less deferred revenue	691,635	-	-	-	691,635
Trade & other payables	(7,332,713)	-	-	-	(7,332,713)
Interest bearing loans & borrowings	(52,967)	(75,315)	-	-	(128,282)
	(7,385,680)	(75,315)	-	-	(7,460,995)
Net maturity	1,653,900	(75,315)	-	-	1,578,585

30 June 2009	<6 Months $	6-12 Months $	1-5 Years $	>5 Years $	Total $
Consolidated					
Financial assets					
Cash and cash equivalents	2,694,073	-	-	-	2,694,073
Trade and other receivables	1,995,676	-	-	-	1,995,676
	4,689,749	-	-	-	4,689,749
Consolidated					
Financial liabilities					
Total payables (refer note 18)	(3,092,156)	-	-	-	(3,092,156)
Less deferred revenue	1,153,411	-	-	-	1,153,411
Trade & other payables	(1,938,745)			-	(1,938,745)
Interest bearing loans & borrowings	(2,120,731)	(119,478)	(156,099)	-	(2,396,308)
	(4,059,476)	(119,478)	(156,099)	-	(4,335,053)
Net maturity	630,273	(119,478)	(156,099)	-	354,696

Fair value

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

The Group uses various methods in estimating the fair value of financial instruments. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

4 Significant **accounting judgements, estimates and assumptions**

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

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

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

(i) Significant **accounting judgements**

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 those temporary differences.

Taxation

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales, operating costs, capital expenditure and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

(ii) Significant **accounting estimates and assumptions**

Impairment of goodwill and other intangibles

The Group determines whether goodwill and other intangibles are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit(s), using a value in use discounted cash flow methodology, to which the goodwill or other intangible assets are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and other intangibles including a sensitivity analysis are discussed in note 17.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, with the assumptions detailed in note 26. 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.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment), turnover policies (for motor vehicles), and historical experience as well as expected customer longevity (for customer lists). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

5 Operating **Segments**

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The Group operates exclusively in one operating segment, being the provision of telecommunications services in Australia.

6 Revenues

	Consolidated 2010 $	2009 $
On-net connection and installation fees	224,473	248,776
On-net telecommunications service fees	5,053,076	5,137,792
Off-net connection and installation fees	273,905	120,006
Off-net telecommunications service fees	6,462,794	8,515,396
Sale of equipment	149,003	172,263
Interest revenue	80,956	82,045
Total revenue from operating activities	12,244,207	14,276,278
Gain on sale of plant & equipment	-	7,273
Gain on sale of off-net business (refer to Note 10)	1,563,718	-
Gain on sale of available-for-sale investments	770,692	-
Other income	2,150	16,057
Total other income	2,336,560	23,330
Total revenues	14,580,767	14,299,608

7 Expenses

	Consolidated 2010 $	2009 $
(a) Employee benefits expense		
Wages and salaries	2,644,110	2,948,308
Defined contribution superannuation expense	238,427	251,211
Share-based payments expense	1,434	8,940
Other employee benefits expense	419,784	322,827
	3,303,755	3,531,286
(b) Marketing expenses		
Marketing and public relations expense	44,834	8,543
	44,834	8,543
(c) Lease payments and other occupancy expenses		
Minimum lease payments - operating lease	335,042	316,713
Other	112,404	154,816
	447,446	471,529

7 Expenses **(continued)**

	Consolidated	
	2010 $	2009 $
(d) Administrative Expenses		
Bad debt and provisions for doubtful debts expense / (write back)	105,372	(10,602)
Professional fees	291,467	200,972
Vehicle expenses	101,089	81,753
Telecommunications charges	71,612	111,293
Licenses and subscriptions	94,164	135,185
Equipment rental	91,862	89,657
Insurance and corporate compliance costs	129,713	120,129
Travel and entertainment	64,306	69,629
Office expenses	32,915	33,245
Other administrative expenses	13,786	19,529
	996,286	850,790
(e) Depreciation and amortisation		
Depreciation	727,412	829,611
Amortisation	107,252	110,780
	834,664	940,391
(f) Finance costs		
Bank loans	91,761	134,279
Finance charges payable under finance leases	23,922	28,386
Other	25,931	62,131
Total finance costs	141,614	224,796
(g) Other expenses		
Restructuring costs*	70,000	-
	70,000	-

*During the 2010 financial year the consolidated entity incurred costs to restructure its operations to improve its operational efficiency. Such costs totalled $70,000 and included redundancy payments and onerous lease costs.

8 Income **tax**

	Consolidated 2010 $	2009 $
(a) Income tax expense		
The major components of income tax expense are:		
Statement of comprehensive income current income tax		
Current income tax charge	-	-
Adjustments in respect to current income tax of previous years	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	27,689	-
Relating to recognition of temporary differences not previously recognised	(181,365)	-
Income tax expense / (benefit) reported in the statement of comprehensive income	(153,676)	-
(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate		
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit/(loss) before tax	2,282,037	324,960
At the Group's statutory income tax rate of 30% (2009: 30%)	684,611	97,488
Expenditure not allowable for income tax purposes	5,398	3,177
CGT Disposal – off-net business sale	(2,127,195)	-
CGT Disposal – available-for-sale investments	(60,073)	-
Taxable loss on sale of assets not recognised	1,397,658	-
Impairment charge	-	59,955
Share based payments (equity settled)	430	2,682
Relating to origination and reversal of temporary differences recognised for the first time	(75,000)	-
Relating to origination and reversal of temporary differences not previously recognised	(181,365)	(138,641)
Relating to current year tax losses not recognised	201,860	-
Relating to utilisation of tax losses not previously recognised	-	(24,661)
Aggregate income tax expense / (benefit)	(153,676)	-
(c) Deferred income tax asset		
Deferred income tax asset at 30 June relates to the following:		
Doubtful debts	31,061	36,036
Equity raising costs	24,195	45,190
Accruals	51,954	124,670
Provisions	76,322	45,107
Deferred revenue	207,490	346,023
Intangibles	128,937	(49,378)
Unrecognised temporary differences	-	(181,365)
Net deferred income tax assets	519,959	366,283

(d) Tax losses

During the year the Group generated revenue tax losses totaling $672,862, in addition to carried forward revenue losses in respect of prior years not utilised totaling $696,000 which may be available to the Group for offset against future taxable income but which have not been recognised on the statement of financial position. In addition, the Group has carried forward capital tax losses totaling $4,658,860, which have not been recognised on the statement of financial position.

(e) Unrecognised temporary differences

At 30 June 2010, there are no unrecognised temporary differences. (2009: $181,365)

9 Earnings **per share**

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

(a) Earnings used in calculating earnings per share	Consolidated 2010 $	2009 $
For basic and diluted earnings per share:		
Net profit from continuing operations attributable to ordinary equity holders of the parent	**2,435,713**	324,960
(b) Weighted average number of shares	**2010**	**2009**
Weighted average number of ordinary shares for basic and diluted earnings per share	**119,922,242**	113,554,769

There are no instruments (e.g. share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive for either of the periods presented.

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

Options granted to employees as described in note 26 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

10 Disposal **of off-net business and assets**

(a) Details **of operations disposed**

On 15 April 2010, the board of directors entered into a sale agreement to dispose of its non-core off-net business operations and associated assets. The disposal was completed on 1 May 2010, on which date control of the business passed to the acquirer.

The company publicly announced this decision on 15 April 2010.

(b) Assets **and liabilities and cash flow information of disposed entity**

Details of the disposal of the off-net assets are as follows:

Consideration received or receivable:

Cash received	3,750,0000
Present value of deferred sales proceeds recorded as a receivable	1,000,000
Total disposal consideration	4,750,000
Less net assets disposed of:	
Goodwill	(2,888,657)
Customer lists	(297,062)
Other	(563)
Gain on disposal before income tax	1,563,718
Income tax expense	-
Gain on disposal after income tax	1,563,718

Net cash inflow on disposal in the current year:

Cash and cash equivalents consideration – reflected in the statement of cash flows	3,750,000

11 Capital **Return paid and proposed**

On 25 June 2010 the company held an Extraordinary General Meeting at which shareholders voted to approve a capital return of up to 6 cents per fully paid ordinary share. Clever Communications Australia Limited has 119,922,242 fully paid ordinary shares on issue and there are no other classes of shares on issue, nor have any unexpired options or convertible instruments been issued by the company.

The company proposed to pay the reduction of capital in 2 tranches. The first tranche of 4 cents per share, amounting to $4,796,890 was paid on 13 July 2010, with the company's shares trading on an 'ex' return of capital basis from 29 June 2010.

The second tranche of up to 2 cents per share is subject to a number of conditions being met, including receipt by the company of the final proceeds from the sale of the off-net business, and the directors resolving to proceed with the payment.

At the reporting date the company has a current liability of $4,796,890, representing its obligation to pay shareholders the 4 cent capital reduction.

12 Current **assets - cash and cash equivalents**

	Consolidated	
	2010 $	2009 $
Cash at bank and in hand	6,315,454	2,194,073
Short-term deposits	-	500,000
	6,315,454	2,694,073
(a) Reconciliation of net profit after tax to net cash flow from operations		
Profit after tax	2,435,713	324,960
Adjustment for non-cash income and expense items:		
Depreciation and amortization	834,664	940,391
Impairment of available-for-sale investments	-	199,851
Profit on sale of available-for-sale assets	(770,692)	-
Profit on sale of off-net business and assets	(1,563,718)	
Share-based payments (equity settled)	1,434	8,940
Profit on sale of property, plant and equipment	-	(7,273)
Disposals and write-down of property, plant and equipment	154,671	16,676
Other non-cash items	1,689	162
Changes in assets and liabilities		
(Increase)/decrease in assets:		
Trade and other receivables	156,617	503,072
Inventories	9,304	(20,919)
Prepayments	114,933	111,413
Deferred tax assets	(153,676)	-
Increase/(decrease) in liabilities:		
Trade and other payables	67,106	(591,388)
Provisions	104,053	512
Net cash from operating activities	1,392,098	1,486,397
(b) Non-cash financing and investing activities		
Share-Based payments	1,434	8,940

13 Current **assets - trade and other receivables**

	Consolidated 2010 $	2009 $
Trade receivables	1,410,041	1,525,246
Allowance for impairment loss (a)	(103,534)	(120,121)
	1,306,507	1,405,125
Prepayments	279,226	394,160
Other	138,393	196,391
Off-net business sale receivable	1,000,000	-
Carrying amount of trade and other receivables	2,724,126	1,995,676

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 14-30 day terms. A provision for doubtful debts is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $105,372 (2009: $26,834) has been recognised by the Group in the current year. These amounts have been included in the administration expenses line item.

Movements in the allowance for impairment loss were as follows:

	2010	2009
At 1 July	120,121	184,022
Charge for the year	105,372	26,834
Amounts written off	(121,959)	(90,735)
At 30 June	103,534	120,121

	Total	0-30 Days	30-60 Days	>60 Days
At 30 June, the ageing analysis of trade receivables is as follows:				
2010 Consolidated	1,410,041	1,246,392	65,816	97,833
2009 Consolidated	1,525,246	1,396,824	9,581	118,841

Receivables past due but not considered impaired are: $60,115 (2009: $8,301).

Payment terms on these amounts have not been re-negotiated however credit has been stopped until full payment is made. Direct contact with the relevant debtor has been made and the Group is satisfied that payment will be received in full.

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

(b) Fair value and credit risk

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

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

I Interest rate risk

Detail regarding interest rate risk exposure is disclosed in note 3.

14 Current **assets – inventories**

	Consolidated 2010 $	2009 $
Stock on hand	25,048	34,352
	25,048	34,352

Inventory write-downs recognised as an expense totaled $3,197 (2009: $4,337) for the Group.

15 Available-**for-Sale Investments**

	Consolidated 2010 $	2009 $
Investment in BigAir Group Limited	-	710,241
	-	710,241

During the year ended 30 June 2010 the Group sold its investment in BigAir Group Limited for $1,350,722 representing a profit on sale of $770,692.

16 Non-**current assets – plant and equipment**

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

Consolidated	Office, computer and network equipment $	Motor Vehicles $	Total $
Year Ended 30 June 2010			
At 1 July 2009 net of accumulated depreciation and impairment	1,276,356	151,948	**1,428,304**
Additions	754,837	-	**754,837**
Disposals and write downs	(155,235)	-	**(155,235)**
Transfers	-	-	**-**
Depreciation charge for the year	(676,491)	(50,921)	**(727,412)**
At 30 June 2010 net of accumulated depreciation and impairment	1,199,467	101,027	**1,300,494**
At 30 June 2010			
Cost	5,849,432	261,566	**6,110,998**
Accumulated depreciation and impairment	(4,649,965)	(160,539)	**(4,810,504)**
Net carrying amount	1,199,467	101,027	**1,300,494**
Year Ended 30 June 2009			
At 1 July 2008 net of accumulated depreciation and impairment	1,745,030	202,068	**1,947,098**
Additions	329,668	-	**329,668**
Disposals	(16,676)	-	**(16,676)**
Transfers	(2,175)	-	**(2,175)**
Depreciation charge for the year	(779,491)	(50,120)	**(829,611)**
At 30 June 2009 net of accumulated depreciation and impairment	1,276,356	151,948	**1,428,304**
At 30 June 2009			
Cost or fair value	5,252,866	261,566	**5,514,432**
Accumulated depreciation and impairment	(3,976,510)	(109,618)	**(4,086,128)**
Net carrying amount	1,276,356	151,948	**1,428,304**

Assets held on finance leases with net book value of $80,176 (2009: $271,525) are included within plant and equipment.

17 Non-current assets – intangible assets and goodwill

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

Consolidated	Customer Lists $	Goodwill $	Total $
Year Ended 30 June 2010			
At 1 July 2009 net of impairment	404,314	6,913,615	7,317,929
Disposal of off-net operations	(297,062)	(2,888,657)	(3,185,719)
Amortisation	(107,252)	-	(107,252)
At 30 June 2010 net of accumulated amortisation and impairment	-	4,024,958	4,024,958
At 30 June 2010			
Cost (gross carrying amount)	-	10,013,615	10,013,615
Accumulated impairment	-	(5,988,657)	(5,988,657)
Net carrying amount	-	4,024,958	4,024,958
Year ended 30 June 2009			
At 1 July 2008 net of impairment	-	6,848,982	6,848,982
Acquisition of business and assets (note 27)	515,094	64,633	579,727
Amortisation	(110,780)	-	(110,780)
At 30 June 2009 net of impairment	404,314	6,913,615	7,317,929
At 30 June 2009			
Cost (gross carrying amount)	515,094	10,013,615	10,528,709
Accumulated impairment	-	(3,100,000)	(3,100,000)
Accumulated amortisation	(110,780)	-	(110,780)
Net carrying amount	404,314	6,913,615	7,317,929

(b) Description of the Group's intangible assets and goodwill

(i) Customer Lists

Customer Lists have been acquired through business combinations and are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible has been assessed as having a finite live and is amortised using the straight line method over a period of 4 years. The amortisation is recognised in profit or loss in the line item "Depreciation and amortisation expenses". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount. During the year ended 30 June 2010 the group disposed of $297,062 in Customer Lists as part of the off-net business and assets sale.

(ii) Goodwill

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

(c) Disposal of Goodwill

Goodwill totalling $2,888,657 was written off as part of the disposal of the off-net business operations. The goodwill write down related to the assets and business operations sold on 1 May 2010 (refer to note 10). The write down has been recognised in profit or loss within the line item 'Other Income' (refer to Note 6). The cash-generating unit consists of the Australian-based assets of the Group.

(d) Impairment tests for goodwill

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

Goodwill acquired through business combinations has been allocated to cash generating units for impairment testing as follows:

The recoverable amount of the cash generating units have been determined based on a value in use calculation using cash flow projections as at 30 June based on financial budgets approved by senior management covering a five-year period.

(d) Impairment tests for goodwill (continued)

The pre-tax, risk free discount rate applied to cash flow projections is 17.7% (2009: 17.6%) and cash flows beyond the five-year period are extrapolated using a 2.0% growth rate (2009: 3.0%), which is typical of the long-term average growth rate for the telecommunications services industry.

(ii) Key assumptions used in value in use calculations for the cash generating units for 30 June 2010 and 30 June 2009

The calculation of value in use is most sensitive to the following assumptions:

- gross margins;
- discount rates;
- market share during the budget period; and
- growth rate used to extrapolate cash flows beyond the budget period.

Gross margins – gross margins are based on projections in the board approved operating budget for the forthcoming financial year.

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

Market share assumptions – these assumptions are important because, as well as using industry data for growth rates (as noted below), management assess how the Group's relative position to its competitors might change over the budget period. Management expects the Group's share of the telecommunications market to be stable over the budget period.

Growth rate estimates – these are based on published industry research.

(iv) Sensitivity to changes in assumptions

With regard to the assessment of the value in use of the cash generating unit, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

The implications of the key assumptions on the recoverable amount are discussed below.

Growth rate assumptions – management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. The effect of new entrants is not expected to impact adversely on forecasts included in the budget, but could yield a reasonably possible alternative to the estimated long term growth rate of 2.0%. Management believe that no reasonably possible change in this assumption would cause the carrying value of the unit to materially exceed its recoverable amount.

Discount rate assumptions – management recognised that actual time value of money may vary to what they have estimated. Management believes that no reasonably possible change in this assumption would cause the carrying value of the unit to materially exceed its recoverable amount.

18 Current **liabilities – trade and other payables**

	Consolidated	
	2010 $	2009 $
Trade payables	**1,517,288**	1,379,692
Capital return payment to shareholders	**4,796,890**	-
Agency payables*	**847,437**	-
Other payables	**18,040**	203,540
Deferred revenue	**691,635**	1,153,412
Accruals	**153,058**	355,512
	8,024,348	3,092,156

* Agency payables comprise amounts received by the group on behalf of People Telecommunications Pty Ltd following the sale of the off-net business operations on 1 May 2010.

(a) Fair **value**

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

(b) Interest **rate and liquidity risk**

Information regarding interest rate and liquidity risk exposure is set out in note 3.

Trade and other payables are non-interest bearing and are normally settled on 30 day terms.

19 Current **liabilities – provisions**

	Consolidated 2010 $	2009 $
Annual leave	**131,072**	131,625
Long service leave	**14,525**	13,065
Restructuring	**70,000**	-
	215,597	144,690

(a) Movements **in provisions**

Please refer to note 20 for details.

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

Please refer to note 20 for details.

At 30 June 2010 the Group had 25 employees (2009: 34)

20 Non-**current liabilities – provisions**

	Consolidated 2010 $	2009 $
Long service leave	**38,811**	5,665
	38,811	5,665

(a) Movements **in provisions**

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

	Consolidated Restructuring provision $	Total $
At 1 July 2009	-	-
Amount provided	70,000	**70,000**
At 30 June 2010	70,000	**70,000**
		-
Current 2010	70,000	**70,000**
Non-current 2010	-	-
	70,000	**70,000**
Current 2009	-	**-**
Non-current 2009	-	-
	-	**-**

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

(i) Restructuring provision

Due to the sale of the off-net business operations the group had committed at 30 June 2010 to restructuring its operations during the year ending 30 June 2011.

(ii) Long service leave

Refer to note 2(q) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

(iii) Annual leave

A provision is booked for employees who earn but are yet to use their vacation entitlements. This amount includes on-costs for superannuation, workers compensation insurance and payroll tax (refer to note 2(q) for the relevant accounting policy).

21 Interest-**bearing loans and borrowings**

	Consolidated 2010 $	2009 $
Current		
Obligations under finance leases and hire purchase contracts (note 28)	120,482	155,293
Commercial Bill payable	-	2,000,000
	120,482	2,155,293
Non-current		
Obligations under finance leases and hire purchase contracts (note 28)	-	148,299
	-	148,299

(a) Fair **values**

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

(b) Interest **rate and liquidity risk**

Details regarding interest rate and liquidity risk are disclosed in note 3.

(c) Assets **pledged as security**

The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities are:

	Note	Consolidated 2010 $	2009 $
Current			
Fixed & floating charge			
Cash and cash equivalents	12	-	2,694,073
Receivables	13	-	1,995,676
Inventories	14	-	34,352
Total current assets pledged as security		-	4,724,101
Non-current			
Fixed & floating charge			
Available for sale Financial Assets	15	-	710,241
Plant and Equipment	16	-	1,428,304
Total non-current assets pledged as security		-	2,138,545
Total assets pledged as security		-	6,862,646
Financing facilities available			
Facilities used at reporting date		-	2,000,000
Facilities unused at reporting date		-	-
		-	2,000,000

The terms and conditions relating to the financial assets are as follows:

The Group's assets were pledged against a $2,000,000 Commercial Bill Facility expiring 31 December, 2011, rolled over every 180 days and secured by a registered fixed and floating charge. In May 2010 the Group repaid the outstanding balance on the facility and cancelled the facility altogether.

(d) Defaults **and breaches**

During the current and prior year, there were no defaults on any of the loans.

22 Contributed **equity**

	Consolidated 2010 $	2009 $
(a) Ordinary shares		
Ordinary share capital, issued and fully paid	**7,922,919**	12,719,809
	7,922,919	12,719,809

	Thousands of shares	$
(b) Movement in ordinary shares on issue		
At 1 July 2008	**103,701,889**	11,929,779
Share issue	**16,220,353**	790,030
Transaction costs	**-**	-
At 30 June 2009	**119,922,242**	12,719,809
At 1 July 2009	**119,922,242**	12,719,809
Capital return	**-**	(4,796,890)
Transaction costs	**-**	-
At 30 June 2010	**119,922,242**	7,922,919

(b) 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, issue new shares or sell assets to reduce debt.

Management monitor capital through the gearing ratio (net debt / total capital). The target for the Group's gearing ratio is between 20% to 0%. The gearing ratios based on continuing operations at 30 June 2010 and 2009 were as follows:

	Consolidated 2010 $	2009 $
Total borrowings *	**120,482**	2,303,592
Less cash and cash equivalents	**(6,315,454)**	(2,694,073)
Net (cash)	**(6,194,972)**	(390,481)
Total equity	**6,510,801**	9,000,755
Total capital	**315,829**	8,610,274
Gearing ratio	**0%**	0%
* Includes interest bearing loans and borrowings		

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

23 Retained **earnings / (Accumulated losses) and reserves**

(a) Movements **in retained earnings / (accumulated losses) were as follows:**

	Consolidated	
	2010 $	2009 $
Balance 1 July	**(3,913,177)**	(4,238,137)
Net Profit	**2,435,713**	324,960
Balance 30 June	**(1,477,464)**	(3,913,177)

(b) Other **reserves**

	Consolidated		
	Net unrealised gains reserve $	Share options reserve $	Total $
At 1 July 2008	-	54,972	**54,972**
Net fair value gains on available-for-sale investments	130,211	-	**130,211**
Share based payment	-	8,940	**8,940**
At 30 June 2009	130,211	63,912	**194,123**
Net fair value gains on available-for-sale investments	-	-	**-**
Transferred realised gains to other income	(130,211)	-	**(130,211)**
Share based payment	-	1,434	**1,434**
At 30 June 2010	-	65,346	**65,346**

(c) Nature **and purpose of reserves**

Share options reserve

The share options reserve is used to record the value of share based payments provided to employees and directors as part of their remuneration. Refer to note 26 for further details of these plans.

Net unrealised gains reserve

This reserve records movements in the fair value of available-for-sale financial assets.

24 Related **party disclosure**

(a) Subsidiaries

The consolidated financial statements include the financial statements of Clever Communications Australia Limited and the subsidiaries listed in the following table.

		% Equity Interest	
	Country of Incorporation	2010	2009
Clever Communications Operations Pty Limited	Australia	100	100
Saise Pty Limited	Australia	100	100
Activ Australia Pty Limited	Australia	100	100
Access Providers Group Pty Limited	Australia	100	100

(b) Ultimate **parent**

Clever Communications Australia Limited is the ultimate Australian parent entity and the ultimate parent of the Group.

(c) Key **management personnel**

Details relating to key management personnel, including remuneration paid, are included in Note 25.

(d) Transactions **with related parties**

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances on related party trade payables at year-end, refer to note 18):

Consolidated		Sales to Related Parties $	Purchases from Related Parties $	Other Transactions with Related Parties $
Entities with significant influence over the Group:				
Leasehold properties - rental expenses	2010	-	-	-
	2009	-	113,648	-
Consulting services	2010	-	-	-
	2009	-	62,494	-

During the year ended 30 June 2009 the Group leased office premises from Mr. G. Kelly and Mr. A. Kontouris. Mr. Kelly is the beneficial owner of 2.0% of the ordinary shares in Clever Communications Australia Limited (2009: 3.2%). Mr. Kontouris is the beneficial owner of 5.9% of the ordinary shares in Clever Communications Australia Limited (2009: 5.9%).

During the year ended 30 June 2009 the group purchased consulting services from Kidder Williams Limited a company related to non-executive directors Mr. D. Williams and Mr. P. Powell.

During the year ended 30 June 2010 a payment of $60,000 was made to Mr. Ondarchie in full and final settlement of legal claims brought by Mr. Ondarchie against the company. Mr. Ondarchie is the beneficial owner of 11.6% of the ordinary shares in Clever Communications Australia Limited (2009:11.6%).

Employees

Contributions to superannuation funds on behalf of employees are disclosed in note 7(a).

Terms and conditions of transactions with related parties

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

25 Key **management personnel**

(a) Compensation **for Key Management Personnel**

	Consolidated 2010 $	2009 $
Short-term employee benefits	**557,622**	601,560
Post-employment benefits	**49,442**	54,140
Termination benefits	**-**	-
Other	**5,034**	-
Share-based payment	**1,434**	8,940
Total compensation	**613,532**	664,640

(b) Option **holdings of Key Management Personnel**

	Balance at beginning of period 1 July 2009	Granted as remu-neration	Options exercised	Net change other#	Balance at end of period 30 June 2010	Vested at 30 June 2010 Total	Exer-cisable	Not exer-cisable
Directors								
D. Williams	3,000,000	-	-	(3,000,000)	-	-	-	-
S. Carter	3,000,000	-	-	(3,000,000)	-	-	-	-
T. Watson*	-	-	-	-	-	-	-	-
P. Powell	2,000,000	-	-	(2,000,000)	-	-	-	-
Total	8,000,000	-	-	(8,000,000)	-	-	-	-

Includes forfeitures * Appointed 26/08/09

All remaining share options expired during the year.

(b) Option **holdings of Key Management Personnel (continued)**

	Balance at beginning of period 1 July 2008	Granted as remuneration	Options exercised	Net change other#	Balance at end of period 30 June 2009	Vested at 30 June 2009 Total	Exercisable	Not exercisable
Directors								
D. Williams	3,000,000	-	-	-	3,000,000	3,000,000	3,000,000	-
S. Carter	4,000,000	-	-	(1,000,000)	3,000,000	3,000,000	-	3,000,000
P. Powell	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
Total	9,000,000	-	-	(1,000,000)	8,000,000	8,000,000	5,000,000	3,000,000

Includes forfeitures

(c) Shareholdings **of Key Management Personnel**

Shares held in Clever Communications Australia Limited (number)

	Balance at beginning of period 1 July 09	Granted as remuneration	On exercise of options	Net change other#	Balance at end of period 30 June 10
Directors					
D. Williams*	5,149,736	-	-	2,030,264	7,180,000
S. Carter	600,000	-	-	-	600,000
P. Powell*	2,405,900	-	-	534,100	2,940,000
T. Watson (appointed 26/08/09)	12,000,000	-	-	-	12,000,000
Executives					
L. Davis	200,000	-	-	50,000	250,000
G. Evans (resigned 04/12/09)	-	-	-	-	-
Total	20,355,636	-	-	2,614,364	22,970,000

Shares held in Clever Communications Australia Limited (number)

	Balance at beginning of period 1 July 08	Granted as remuneration	On exercise of options	Net change other#	Balance at end of period 30 June 09
Directors					
D. Williams*	2,983,836	-	-	2,165,900	5,149,736
S. Carter	600,000	-	-	-	600,000
P. Powell*	240,000	-	-	2,165,900	2,405,900
Executives					
L. Davis	-	-	-	200,000	200,000
G. Evans (resigned 04/12/09)	-	-	-	-	-
Total	3,823,836	-	-	4,531,800	8,355,636

All changes are a result of on-market share transactions.

* Both D. Williams and P. Powell are directors of Kidder Williams Limited, which held 2,500,000 in Clever Communications Australia Limited at 30 June 2010 (2009: 2,165,900). These shares are included in the number of shares held by both directors.

(d) Loans **to Key Management Personnel**

There were no loans to directors or key management personnel during the year ending 30 June 2010 (2009: none).

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

During the year ended 30 June 2009 the Group leased office premises from Mr. G. Kelly and Mr. A. Kontouris. Mr Kontouris is a former director of the company. The lease expense under the contract was $113,648.

During the year ended 30 June 2009 a repayment of $99,376 was made on an outstanding loan from Mr. K.Ondarchie, a substantial shareholder and former executive director of the parent.

26 Share-**based payment plans**

(a) Recognised **share-based payment expenses**

The expense recognised for employee services received during the year is shown in the table below:

	Consolidated	
	2010 $	2009 $
Expense arising from equity-settled share-based payment transactions	1,434	8,940

The share-based payment plan is described below. There have been no cancellations or modifications to the plan during 2010 and 2009.

(b) Types **of share-based payment plans**

Employee Share Option Plan, 'ESOP'

An employee share option plan has been established where Clever Communications Australia Limited may, at the discretion of management, grant options over the ordinary shares of Clever Communications Australia Limited to directors, executives and certain members of staff of the consolidated entity. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the directors of Clever Communications Australia Limited, although the management of Clever Communications Australia Limited retains the final discretion on the issue of the options. The options cannot be transferred and will not be quoted on the ASX.

Pursuant to the Option Plan, options to subscribe for shares may be offered to eligible employees. All full-time and permanent part-time employees of Clever Communications Australia Limited group and directors or secretaries of Clever Communications Australia Limited group are eligible employees for the purposes of the Option Plan.

Eligible employees selected by the Board will be invited to apply for a specified number of options. Unless otherwise determined by the Board: no payment is required for the grant of the options; and the exercise price of the options will be the market value of the shares at the date of grant of the options.

The exercise of the options will be subject to the satisfaction of certain exercise conditions set by the Board.

If Clever Communications Australia Limited makes any new issue of securities or alterations to its capital by way of a rights issue, bonus issue or other distribution of capital, reduction of capital or reconstruction of capital then, subject to the ASX Listing Rules, the Board may make adjustments to the rights attaching to the options (including to the number of shares which may be acquired on exercise of the options and the exercise price) on any basis it sees fit in its absolute discretion.

(c) Summaries **of options granted**

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

	2010 No.	2010 WAEP	2009 No.	2009 WAEP
Outstanding at the beginning of the year	8,000,000	0.26	9,000,000	0.25
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	(8,000,000)	0.26	(1,000,000)	0.15
Outstanding at the end of the year	-	-	8,000,000	0.26

There were no outstanding options on issue as at the reporting date.

(d) Option **pricing model**

The fair value of the equity-settled share options granted under the ESOP is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

27 Business **combination**

Prior Year Acquisition of NPH

On 21 August 2008, Clever Communications Australia Limited acquired the business and assets of Dedach Pty Ltd (trading as NPH), an unlisted company based in Sydney Australia, providing telecommunications services.

In connection with the business combination, Clever Communications Australia Limited issued 4,375,000 ordinary shares with a fair value of 4.8 cents each, the market price of the equity issued and agreed to pay further consideration of $300,000 in instalments over a six month period commencing 21 August 2008.

The business and assets of NPH has been incorporated into the operations of Clever Communications Australia Limited.

The fair value of the identifiable assets and liabilities of NPH as at the date of acquisition were:

	Consolidated	
	Recognised on Acquisition $	Carrying Value $
Plant and equipment	600	600
Customer list	515,094	-
Total assets	515,694	600
Fair value of net assets / liabilities	515,694	
Goodwill arising on acquisition*	64,633	
Deferred Tax Liability*	(64,633)	
	515,694	
Consideration		
Share issues, at fair value	210,000	
Cash	300,000	
Acquisition costs	5,694	
Total consideration	515,694	
The cash outflow on acquisition is as follows:		
Cash paid (2009)	300,000	
Acquisition costs paid (2009)	5,694	
Net cash outflow	305,694	

* A portion of the Customer list is not tax deductible, resulting in the recognition of a deferred tax liability and giving rise to a corresponding amount of goodwill on acquisition of $64,633, as prescribed by AASB112 Income Taxes. This was written off in the current year as part of the cost of disposing of the off-net business operations.

28 Commitments

(i) Leasing commitments

Operating lease commitments – Group as lessee

Operating leases are entered into as a means of acquiring access to space on building rooftops and office premises. Rental payments are generally fixed, but with inflation escalation clauses on which contingent rentals are determined. No purchase options exist in relation to operating leases and no operating leases contain restrictions on financing or other leasing activities. A renewal option in connection with the rooftop leases exists.

(i) Leasing commitments (continued)

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

	Consolidated	
	2010 $	2009 $
Within one year	**656,704**	643,185
After one year but not more than five years	**967,561**	905,941
After more than five years	**243,052**	46,825
Total minimum lease payments	**1,867,317**	1,595,951

Finance lease commitments - Group as lessee

The finance leases relate to the leasing of motor vehicles and subscriber units (included within network equipment).

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Consolidated	
	2010 $	2009 $
Within one year	**128,280**	176,468
After one year but not more than five years	**-**	154,838
After more than five years	**-**	-
Total minimum lease payments	**128,280**	331,306
Less amounts representing finance charges	**(7,798)**	(27,714)
Present value of minimum lease payments	**120,482**	303,592
Current liability	**120,482**	155,293
Non-current liability	**-**	148,299
Total	**120,482**	303,592

29 Contingencies

Uncertain tax position - draft legislation

The Australian government has issued draft legislation relating to changes to the tax consolidation rules. The draft legislation proposes changes to the tax treatment of the tax cost reset rules on entry to tax consolidation. The Group is currently assessing the possible impact, if any that these changes will have on the Group's tax position. No liability or benefit has been recognised in respect of this matter.

Capital return to shareholders

On 25 June 2010 the company held an Extraordinary General Meeting at which shareholders voted to approve a capital return of up to 6 cents per fully paid ordinary share. The first tranche of 4 cents per share was paid to shareholders on 13 July 2010 (refer to note 11) and is recorded as a liability in the accounts of the Group at 30 June 2010. The second tranche of up to 2 cents per share is subject to a number of conditions being met, including receipt by the company of the final proceeds from the sale of the off-net business, and the directors resolving to proceed with the payment. No liability has been recognised in respect of this matter.

30 Events **after the balance sheet date**

On 13 July 2010, the company made payment of the 1st tranche of its approved capital return to its shareholders. This payment amounted to $4,796,890.

31 Parent **Entity Information**

Information relating to Clever Communications Australia Ltd:	2010 $	2009 $
Current assets	1,001,166	309
Total assets	10,517,724	10,355,837
Current liabilities	(4,796,890)	(2,000,000)
Total liabilities	(4,796,890)	(2,000,000)
Issued capital	7,922,919	12,719,809
Retained earnings / (Accumulated losses)	(2,267,431)	(4,558,095)
Share options reserve	65,346	63,912
Net unrealised gains reserve	-	130,211
Total shareholders' equity	5,720,834	8,355,837
Profit or (loss) of the parent entity	2,290,713	(319,958)
Total comprehensive income of the parent entity	2,160,502	(189,747)

32 Auditor's **remuneration**

The auditor of Clever Communications Australia Limited is Ernst & Young.

	Consolidated	
	2010 $	2009 $
Amounts received or due and receivable by Ernst & Young (Australia) for:		
An audit or review of the financial report of the entity and any other entity in the consolidated group.*	107,170	121,540
-Other consulting and advisory services	19,500	-
-Special audits and assurance related services	8,982	-
-Tax compliance	8,500	21,830
	144,152	143,370

* The fees associated with the audit of the parent company are borne by the Group.

Directors' **Declaration**

In accordance with a resolution of the directors of Clever Communications Australia Limited, I state that:

1. In the opinion of the directors:

(a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

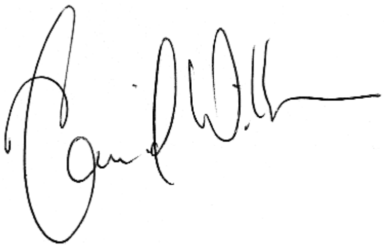
(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards, International Financial Reporting Standards, as issued by the International Accounting Standards Board and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010.

On behalf of the Board



D. J. Williams

Chairman

Melbourne, 25 August 2010

Independent **Auditor's Report**

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Independent auditor's report to the members of Clever Communications Australia Limited

We have audited the accompanying financial report of Clever Communications Australia Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

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

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

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Clever Communications Australia Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Stuart Painter
Partner
Melbourne
25 August 2010

ASX **Additional Information**

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows.
The information is current as at 20 August 2010.

(a) Distribution **of equity securities**

(i) Ordinary share capital

- 119,922,242 fully paid ordinary shares are held by 420 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

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

	Fully paid ordinary shares
1 - 1,000	4
1,001 - 5,000	33
5,001 – 10,000	95
10,001 – 100,000	195
100,001 and over	93
Total	420

Holding less than a marketable parcel 59

(b) Substantial **shareholders**

The names of substantial shareholders who have notified the company in accordance with section 671B of the Corporations Act 2001 are:

	Fully paid ordinary shares	
	Number of shares	Percentage of ordinary shares on issue
Bond Street Custodians Limited	13,913,100	11.6%
Livwat Pty Limited	12,000,000	10.0%
Microequities Asset Management Pty Limited	10,261,208	8.6%
IPR Nominees Pty Limited	7,142,858	6.0%
Benchmark Trading Pty Limited	7,114,022	5.9%
M. & L.M. Van Ryn	6,925,000	5.8%
	57,356,188	47.9%

(c) Twenty **largest shareholders**

The names of the twenty largest holders of quoted shares are:

		Fully paid ordinary shares	
		Number of shares	Percentage of ordinary shares on issue
1.	Bond Street Custodians Ltd	13,913,100	11.6%
2.	Livwat Pty Ltd	12,000,000	10.0%
3.	Microequities Asset Management Pty Limited	10,261,208	8.6%
4.	IPR Nominees Pty Limited	7,142,858	6.0%
5.	Benchmark Trading Pty Ltd	7,114,022	5.9%
6.	L J Catelan Superannuation Fund Pty Ltd	5,568,679	4.6%
7.	M L Catelan Superannuation Fund Pty Ltd	5,568,679	4.6%
8.	RBC Dexia Investor Services Australia Nominess Pty Limited	4,644,429	3.9%
9.	Moggs Creek Pty Limited	3,180,000	2.7%
10.	Mr Maurice Van Ryn & Mrs Louise Margaret Van Ryn	2,605,000	2.2%
11.	Kidder Williams Limited	2,500,000	2.1%
12.	Seapeer Pty Limited	2,340,658	2.0%
13.	Pipcon Pty Ltd	1,600,000	1.3%
14.	Company Lowego Pty Ltd	1,545,900	1.3%
15.	Kidder Peabody Limited	1,500,000	1.3%
16.	HSBC Custody Nomines (Australia) Limited	1,391,000	1.2%
17.	Mr Roland Boillat & Mrs Sheena Boillat	1,114,318	0.9%
18.	42 Shelley Nominees Pty Limited	1,019,924	0.9%
19.	Mr. Barry Charles Gilmore	1,000,000	0.8%
20.	Mathley Superannuation Pty Limited	1,000,000	0.8%
		87,009,775	72.7%

(d) Voting **Rights**

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(e) Name **of Company Secretary**

The company secretary is Leigh S. Davis

(f) Registered **Office**

The registered office is:

Level 5, 257 Collins Street

Melbourne, VIC, 3000

clever
communications australia

Clever Communications Australia
ACN 103 623 356

Level 5, 257 Collins Street,
Melbourne, VIC, 3000.

Telephone 1300 253 837
Facsimile 1300 784 453

www.clevercomms.com