

# STRATATEL



ANNUAL REPORT  
2008

# CORPORATE INFORMATION

ABN 63 088 257 729

## DIRECTORS

Mr Ian Macliver  
Mr Michael Fairclough  
Mr Geoffrey Lambert  
Mr Graham Baillie

## COMPANY SECRETARY

Mr Paul Brown

## REGISTERED OFFICE

Level 1, 1254 Hay Street  
West Perth  
Western Australia 6005

## PRINCIPAL PLACE OF BUSINESS

Level 4  
22 Atchison Street  
St Leonards  
New South Wales 2065

## SHARE REGISTER

Computershare Investor Services Pty Ltd  
Level 2 Reserve Bank Building  
45 St Georges Terrace  
Perth  
Western Australia 6000

## SOLICITORS

Talbot Olivier  
Level 8, Wesfarmers House  
40 The Esplanade  
Perth  
Western Australia 6000

## AUDITORS

HLB Mann Judd  
Level 2, 15 Rheola Street  
West Perth WA 6005

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## CHAIRMAN'S LETTER

Dear Shareholder,

I am again delighted to announce that your company has had another excellent year; increasing revenue, completing another acquisition and reporting an EBITDA of \$1.1m, over double that of the previous year. The company has also declared and paid a maiden interim unfranked dividend of 0.25 cents per share, and recently declared a final unfranked dividend of 0.25 cents per share. These achievements were in line with our expectations.

In May 2008 Stratatel acquired the business and assets of Phoneware Communications Pty Ltd. Phoneware was a leader in telephony call accounting and directory systems in Australia for 15 years with its CADS suite of applications.

Softlog continues to perform well, having surpassed an internal revenue target of \$2.2m for their first full year following acquisition. The Softlog.Enterprise solution continues to deliver a near immediate return for most professional clients within a couple of months following installation through the automation of recoverable disbursements, with many clients experiencing a significant improvement in this collection of up to 85%.

The Softlog agreement with Canon has already generated sales activity and we are confident that sales will follow.

Sales of the FleetManager® range of asset and expense management applications were solid throughout the year, generating \$3.2m in revenue in this financial period, highlighting the sustainability of recurrent revenue derived from this business model.

As a result of this activity Stratatel generated \$6.2m in revenue for the year, up 89% over the previous period.

Earnings have been encouraging for the start of the 2008-09 financial year and the company expects sales of FleetManager®, CADS and Softlog.Enterprise to continue to grow and recurrent revenue to increase. The company is cognisant of current world financial uncertainty and, whilst optimistic about the year ahead, it remains unclear the extent to which this uncertainty will impact the company's plans to achieve its growth objectives. Notwithstanding this, the company remains debt free and is well positioned to capitalise on emerging opportunities.

Research and development in new and innovative products remains high on the company agenda with an increased capacity for innovation and product development. A number of new and exciting products are expected to come on stream throughout this financial year that have the potential to extend our market reach.

To further expand business activities the company continues to investigate synergistic acquisitions that are earnings accretive.

On behalf of your board of directors I would like to take this opportunity to thank you for your continued support. I would also like to thank the Managing Director, Mike Fairclough, management and staff for their contribution last year and look forward to their support in the year ahead.

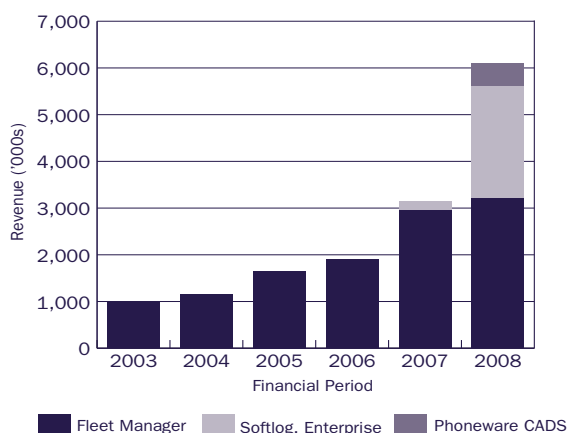
I Macliver  
Chairman

# REVIEW OF OPERATIONS

## EXPLANATION OF RESULT

Total revenue generated by the Company for the twelve months to 30 June 08 increased 89% to \$6.2m over the previous corresponding period (2007: \$3.3m) reflecting continuing sales momentum from the Company's software solutions.

**Diagram 1: Graph showing growth in revenue since 2003 by product suite**



## Important Dates:

- 1 May 07 – acquisition of the assets of Softlog Systems Pty Ltd, including the Softlog, Enterprise™ software suite
- 1 May 08 – acquisition of the assets of Phoneware Communications Systems Pty Ltd including the CADS suite

Please refer to the Directors' Report in the Annual Accounts and Review of Operations below for additional explanation of the financial results.

## REVIEW OF OPERATIONS

### Overview

The 2007-08 year resulted in the Company meeting profit expectations and generate over \$1m in profit before tax, a 160% increase over the previous financial year (2007: \$389k).

This result was achieved through broadly based sales growth and was assisted late in the financial year through the acquisition of the assets of Phoneware Communications Systems Pty Ltd in May 2008, including the CADS suite, a market leading suite of call accounting and telecommunications management applications.

Softlog Systems Pty Ltd, acquired in May 2007, added \$2.3m in revenue in the 2007-08 financial year and made a contribution to earnings.

The Softlog.Enterprise™ product suite is focused on cost recovery for the legal and accounting markets whilst further research and development has been conducted to provide a disbursement expense management solution for the corporate market.

The FleetManager® product suite manages all asset and expense management solutions developed or acquired including MobileFleet®, Infratel®, AutoManager, Pool Car Manager, OnTrac and importantly the modular application FleetManager, which provides users with a single web-based application to manage a range of assets and the related expenditure.

Significant research and development effort has been conducted in identifying new and innovative software solutions to maintain Stratatel's market leading position, a number of which will be announced to the market in the coming months.

## REVIEW OF OPERATIONS (CONTINUED)

### THE COMPANY'S SOFTWARE SOLUTIONS

#### **FleetManager®**

The FleetManager product suite incorporates the FleetManager® system, the company's 'best of breed' web-based asset and expenditure management solution, harnessing the functionality from the existing MobileFleet® system and integrating these with a more powerful and flexible database structure allowing for the addition of new asset classes such as credit cards, fuel cards, taxi card expenses etc.

Whilst the complete FleetManager® solution remains in development the mobiles, fixed line and taxi card management modules were completed and deployed in the 2007-08 financial year, earning nearly \$1.17m revenue (2007: \$850k)

#### **The FleetManager® Value Proposition**

FleetManager® is designed and built with a '**One System, One Password, For Life**'™ approach, enabling an organisation or government agency to seamlessly manage all of their assets and related expenditure in one easy to access system, dramatically reducing administrative and processing costs and providing corporate governance visibility on how these assets are used.

#### **Phoneware**

On the 1st May 2008 the acquisition of the business and assets of Phoneware Communication Systems Pty Ltd, a company specialising in the provision of Call Accounting and Directory Services (CADS) software, was completed.

Phoneware's CADS® suite of call accounting software solutions have been successfully used in the Australian market for over 15 years, has solid recurrent revenue, including revenue derived from major Channel Partners, and compliments Stratatel's objective in the marketing and provision of asset and expense management solutions. Stratatel took full control of Phoneware on completion and will provide a strong platform for future growth through the continued support of existing solutions and the development of additional features and functionality, adding to the Stratatel product range.

In the two months since acquisition to 30 June 2008 Phoneware provided revenue of \$553k.

#### **Softlog.Enterprise™**

The acquired Softlog business is one of Australia's most experienced software developers of cost recovery solutions for the legal and accounting markets.

Since 1986, Softlog has been designing and building their extensive suite of integrated expense management and cost recovery solutions. This commitment to being a market leader is best demonstrated in the current Softlog.Enterprise™ suite of fully integrated industry-standard modules that eliminate the need for "proprietary" or "dedicated" systems. Instead, the multi-modular Softlog.Enterprise™ allows firms to take charge of their own activities and apply the power of the very latest industry-standard workstation technology for seamless, automated cost recovery.

There has been a continued development of the softlog.onboard® application, an embedded software solution that resides directly on the Multi-Function Device (MFD) (photocopier/fax/scanner) used in many professional firms.

It is this kind of innovation that has enabled Softlog to achieve international success, with new customers in several countries around the world also enjoying the benefits of Softlog's expense management and cost recovery solution.

#### **The Softlog Value Proposition**

Softlog.Enterprise™ and the innovative and unique softlog.onboard® solutions provide Softlog clients with the tools to recover up to 80% of their disbursement expenses, providing a rapid return on investment.

Softlog.Enterprise™, like FleetManager® is a modular software application that can be tailored to accurately and simply assist clients recover disbursements using one or more of the following modules: Copy, Fax, Phone, Print, Email, Scan, Network and Sundries.

## REVIEW OF OPERATIONS (CONTINUED)

### Business Structure

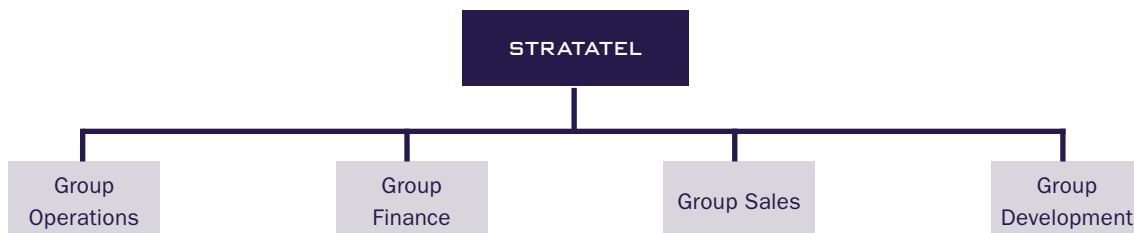
To efficiently and effectively support the FleetManager, Softlog and Phoneware businesses the company has divided the business into divisions to better support current and future requirements, also providing for future growth. An outline of the Stratatel structure can be seen in the diagram below.

The benefit of this structure is that new businesses that are acquired can be integrated into the organisation quickly and with a minimum of fuss. Economies of scale become simpler to identify and action and resource requirements become more identifiable and can be more rapidly deployed.

### Outlook for the Company

In the 2008-09 financial year the company expects sales of its fleet management and cost recovery software solutions to continue to grow and underlying recurrent revenue to rise. Stratatel continues to investigate further acquisitions opportunities.

**Diagram 2: The new structure of Stratatel showing the main business divisions**



## DIRECTORS' REPORT

Your directors submit the annual financial report of the consolidated entity for the financial year ended 30 June 2008. In order to comply with the provisions of the Corporations Act, the directors report as follows:

### DIRECTORS

The names of directors who held office during or since the end of the 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

#### Ian Alexander Macliver

*B.Comm., CA, F Fin, MAICD (Non-Executive Chairman)*

Mr Macliver joined the company in July 2000.

He also is a member of the company's Audit Committee and Remuneration Committee.

Mr Macliver is the Managing Director of Grange Consulting Pty Ltd, a firm that provides specialist corporate advisory services to both listed and unlisted companies. He is also Executive Chairman of Grange's securities arm, Max Capital Pty Ltd, which specialises in capital raisings and corporate finance transactions

During the last three years, Mr Macliver has also served as a Non-Executive Director of the following listed companies:

Dec 1994	current	Port Bouvard Limited
Feb 2001	current	Mount Gibson Iron Limited
Jan 2004	current	Otto Energy Limited
May 2006	current	Empire Beer Group Limited

Mr Macliver was also a former director of Bioprospect Limited from February 2000 to April 2007

#### Michael James Fairclough

*MAICD (Managing Director)*

Mr Fairclough founded the company in 1997 and has been actively involved in the communications and technology industry throughout Australia for over 11 years. Mr Fairclough is responsible for the co-ordination of all sales and marketing activities and the overall management of the company.

#### Geoffrey Ernest Lambert

*M.Econ., SAFin, FAICD (Non-Executive Director)*

Mr Lambert is a member of the company's Audit Committee and Remuneration Committee and has had 30 years experience as a director of public companies.

During the last three years, Mr Lambert has also served as a director of the following listed companies:

Mar 2003	current	Reward Minerals Ltd
Jun 1999	current	ICS Global Ltd
Nov 1999	Sep 2007	Wedgetail Mining Ltd

#### Graham Baillie (Non-Executive Director)

Mr Baillie joined the company in September 2007 as a non-executive Director.

In 1994, Mr Baillie established Outsource Australia Pty Ltd (OSA) to provide outsourcing services to the Australian market. In his capacity as majority shareholder and Chief Executive Officer he developed the company nationally and internationally.

Today, Outsource Australia Pty Ltd is known as ConvergA and has an impressive list of "blue-chip" clients in both the public and private sectors.

Prior to this, Mr Baillie was with AUSDOC during its informative years through to its ultimate ASX listing in September 1993. In this time he was not only integral to the development of the company throughout Australia but was also involved in establishing similar business operations in New Zealand, USA and United Kingdom.

### COMPANY SECRETARY

#### Paul Kenneth Brown

*BSc, MAICD*

Mr Brown has held the position of Company Secretary for over 5 years since joining the company in the capacity of chief financial officer in July 2003. In December 2007 Mr Brown resigned as Chief Financial Officer of the Group and assumed the responsibilities of managing the Group's development activity throughout Australia. Mr Brown continues to fulfil the company secretarial duties.

## DIRECTORS' REPORT (CONTINUED)

### INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

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

	Ordinary Shares	Options over Ordinary Shares
I Macliver	1,625,000	–
M Fairclough	9,486,064	1,000,000
G Lambert	1,563,443	–
G Baillie	4,375,000	–

During the financial year 300,000 share options were granted to the executives listed below:

	Number of options granted	Number of options over ordinary shares	Number of fully paid ordinary shares
Director:			
M Fairclough	–	1,000,000	–
Executive:			
P Brown	–	300,000	–
M Parry	300,000	600,000	–
J Worsfold	–	300,000	–
J Williams	–	300,000	–

Details of unissued ordinary shares under options are as follows:

	Number of options	Exercise price	Expiry date
Stratatel Limited	1,000,000	\$0.10	15 Jan 2011
Stratatel Limited	1,200,000	\$0.10	30 Nov 2011
Stratatel Limited	300,000	\$0.15	24 June 2013

No ordinary shares were issued during the financial year as a result of the exercise of an option.

Dividends	2008	2007
Stratatel Limited		
<i>Final dividends recommended:</i>		
On ordinary shares	80,340,717	–
Per ordinary shares unfranked	\$0.0050	–
	\$401,704	–

## DIRECTORS' REPORT (CONTINUED)

### PRINCIPAL ACTIVITIES

The principal activities of the company during the year were the development and marketing of asset management and cost reduction systems to corporate and government clients. Current activities include the development of similar products and solutions to manage credit cards, cab charge cards and fuel cards.

On the 1st May 2008 Stratatel Limited completed the acquisition of the business and assets of Phoneware Communication Systems Pty Ltd, a business specialising in the provision of Call Accounting and Directory Services (CADS) software. The Phoneware assets were acquired for a consideration of up to \$2.5m; comprising \$1.8m in cash and \$300k of shares in the Company at settlement, plus up to \$400k in cash in 12 months, of which \$200k is subject to specific client retention.

Under the terms of the Agreement Stratatel has paid \$1.36m in cash after adjustments for income billed in advance and other timing adjustments.

Phoneware's suite of CADS software solutions has been successfully used in the market for over 15 years, has solid recurrent revenue, which includes revenue derived from major Channel Partners and compliments Stratatel's objective in marketing and provision of asset and expense management solutions. Stratatel took full control of Phoneware on completion of the acquisition and is anticipated to provide a strong platform for future growth and a vehicle to provide additional features and functionality to the FleetManager product range.

Stratatel Limited was successful in the Placement of 27,062,500 Fully Paid Ordinary shares to raise \$2.165m before placement costs to sophisticated investors. The funds raised were used to acquire the assets of Phoneware Communications Systems Pty Ltd and to provide additional working capital for the Company.

### REVIEW OF OPERATIONS

Information regarding Stratatel's operations and results can be found within the Chairman's Letter, and the Review of Operations. This information is to be read in conjunction with the Directors' Report.

### GROUP OVERVIEW

Information regarding an overview of the Group can be found within the Chairmans' Letter and the Summary of Operations. This information is to be read in conjunction with the Directors' Report.

### OPERATING RESULTS FOR THE YEAR

Overall there has been steady growth in the financial performance with \$1.38m net profit after tax (\$1.03m net profit before tax) for the 2008 financial year against a \$689k net profit after tax (\$398k net profit before tax) the previous reporting period.

### SHAREHOLDER RETURNS

Due to the company's strong financial performance a maiden final unfranked dividend of 0.25 cents per share was paid to shareholders on 15th October 2007 for the 2006-07 financial period.

A maiden interim unfranked dividend of 0.25 cents per share was paid to shareholders on 8th April 2008 due to continued solid financial performance.

The total unfranked dividend paid to shareholders since the start of the financial year was 0.50 cents per share held.

### RISK MANAGEMENT

The Board is committed to the identification and quantification of risk. Directors receive regular reports on areas where significant business risk or exposure concentrations may exist and on the management of those risks. The Board committee structures form an important part of the risk management process.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the consolidated entity to the date of this report.

### SIGNIFICANT EVENTS AFTER BALANCE DATE

No significant events have transpired since the close of the financial year ended 30 June 2008 to the time of the printing of this report.

## DIRECTORS' REPORT (CONTINUED)

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Therefore, this information has not been presented in this report.

### ENVIRONMENTAL LEGISLATION

The consolidated entity is not subject to any significant environmental legislation.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The company has agreed to indemnify all the directors and officers for any breach of laws and regulations arising from their role as directors and officers. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Stratatel has not indemnified or agreed to indemnify an auditor of the company or any related body corporate against liability incurred as an auditor.

### REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Stratatel Limited (the "company").

#### *Remuneration philosophy*

The performance of the company depends upon the quality of the directors and executives.

The philosophy of the company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

#### *Remuneration committee*

The Remuneration Committee of the Board of Directors of the company is responsible for determining and reviewing compensation arrangements for the directors, the CEO and the executive management team.

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

#### *Remuneration structure*

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

#### *Non-executive director remuneration*

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 ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 8th November 2007 when shareholders approved an aggregate remuneration of \$250,000 per year.

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

Each director receives a fee for being a director of the company. An additional fee is also paid for each Board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees.

The remuneration of non-executive directors for the period ended 30 June 2008 is detailed in Table 1 of this report.

## DIRECTORS' REPORT (CONTINUED)

### *Senior executive and executive director remuneration*

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

### *Fixed Remuneration*

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The fixed remuneration component of the 5 most highly remunerated Group and company executives is detailed in Table 2 of this report.

### *Variable Remuneration*

#### **Short Term Incentive (STI)**

The objective of the short term incentive 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 payments granted to each executive depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures, such as contribution to net profit after tax, customer service, revenue growth and leadership/team contribution. Only when predetermined targets are met will any STI payment be made.

The aggregate of annual payments available for executives across the company is subject to the approval of the Remuneration Committee. Payments made are delivered as a cash bonus in the following reporting period.

The company also makes long term incentive payments to reward executives in a manner that aligns this element of remuneration with the creation of shareholder wealth.

#### **Long Term Incentive (LTI)**

The LTI plan was designed to reward executives in a manner that rewards the creation of shareholder wealth over the longer term. As such LTIs are made only to executives who are able to influence the generation of shareholder wealth through company performance against the relevant long term performance hurdle.

LTI grants to executives are delivered in the form of options.

The company uses improvement in overall company performance as an indicator of prospective shareholder wealth over the longer term, reflected in earnings per share performance.

The directors are of the opinion that these results can be, in part, attributed to the previously described remuneration policy and is satisfied that this continued improvement should result in increased wealth to shareholders over the short to medium term.

#### *Employment Contracts*

The Chief Executive Officer, Mr. Michael Fairclough, is employed under contract. This current contract commenced on January 1 2007 and terminates on December 31 2009, at which point the company may wish to enter into a new employment contract with Mr. Fairclough.

This contract provides Mr. Fairclough with an annual salary of \$400,000 including superannuation.

The company may terminate this employment agreement at any time and without prior notice if serious misconduct has occurred. In this event only the fixed proportion of the remuneration is payable and only up until the date of the termination.

DIRECTORS' REPORT (CONTINUED)

Remuneration of directors and named executives

TABLE 1: DIRECTORS' REMUNERATION FOR THE YEAR ENDED 30 JUNE 2008

		Primary benefits			Post employment			Equity		Total	
		Salary & Fees \$	Bonuses/Commission \$	Allowances \$	Super-annuation \$	Prescribed benefits \$	Options \$	Options \$	\$	\$	Performance related %
I MacIver Chairman (non executive)	2007	52,500	-	-	4,725	-	-	-	-	57,225	-
	2008	67,500	-	-	6,075	-	-	-	-	73,575	-
M Fairclough Managing Director/CEO	2007	293,290	-	-	26,396	-	-	-	-	319,686	-
	2008	311,922	-	-	28,073	-	-	-	-	339,995	-
G Lambert Director (non executive)	2007	42,000	-	-	3,780	-	-	-	-	45,780	-
	2008	55,500	-	-	4,995	-	-	-	-	60,495	-
G Baillie (Appointed 20 Sept 2007) Director (non executive)	2007	-	-	-	-	-	-	-	-	-	-
	2008	36,000	-	-	3,240	-	-	-	-	39,240	-

TABLE 2: REMUNERATION OF THE NAMED EXECUTIVES WHO RECEIVED THE HIGHEST REMUNERATION FOR THE YEAR ENDED 30 JUNE 2008

		Primary benefits			Post employment			Equity		Total	
		Salary & Fees \$	Bonuses/Commission \$	Allowances \$	Super-annuation \$	Prescribed benefits \$	Options \$	Options \$	\$	\$	Performance related %
P Brown Chief Information Officer/Secretary	2007	127,426	-	-	11,468	-	-	7,473	146,366	-	-
	2008	142,565	15,596	-	14,234	-	-	-	172,395	9	9
M Parry General Manager – Operations	2007	143,931	-	-	12,954	-	-	7,473	164,358	-	-
	2008	160,953	17,430	-	16,054	-	-	3,426	197,863	9	9
J Worsfold General Manager – Sales	2007	133,817	16,105	-	13,493	-	-	7,473	170,888	9	9
	2008	143,910	25,174	-	15,218	-	-	-	184,302	13	13
J Butchers (Appointed 26 Nov 2007) Chief Financial Officer	2007	-	-	-	-	-	-	-	-	-	-
	2008	108,496	-	-	9,765	-	-	-	118,261	-	-
D Farrell (Promoted 1 Mar 2008) Branch Manager – Sofilog Systems	2007	-	-	-	-	-	-	-	-	-	-
	2008	130,185	-	500	11,717	-	-	-	142,402	-	-

DIRECTORS' REPORT (CONTINUED)

Remuneration of directors and named executives

TABLE 3: OPTIONS GRANTED AS PART OF REMUNERATION

	Value of options granted at grant date	Value of options exercised at exercise date	Value of options lapsed at time of lapse	Total value of options granted, exercised and lapsed	Value of options lapsed during year	Value of options included in remuneration for the year	% remuneration consisting of options for the year
M Parry	3,426	–	–	3,426	–	3,426	1.7

For details on the valuation of the options, including models and assumptions used, please refer to Note 13. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

## DIRECTORS' REPORT (CONTINUED)

### 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 were as follows:

	Meetings of Committees		
	Directors' Meetings	Audit	Remuneration
<b>Number of meetings held:</b>	9	2	1
<b>Number of meetings attended:</b>			
I Macliver	9	2	1
M Fairclough	9	n/a	1
G Lambert	9	2	1
G Baillie ( <i>appointed September 2007</i> )	5	n/a	n/a

### PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

### AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 19 and forms part of this Directors' Report for the year ended 30 June 2008.

### Non-Audit Services

There were no non-audit related activities carried out by our auditors during the year ended 30 June 2008.

Signed in accordance with a resolution of the directors.

I Macliver  
Chairman

Dated at PERTH this 1st day of September 2008

# CORPORATE GOVERNANCE STATEMENT

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

Stratatel Limited's Corporate Governance Statement is structured with reference to the ASX Corporate Governance Council's principles and recommendations, which are as follows:

- Principle 1.** Lay solid foundations for management and oversight
- Principle 2.** Structure the board to add value
- Principle 3.** Promote ethical and responsible decision making
- Principle 4.** Safeguard integrity in financial reporting
- Principle 5.** Make timely and balanced disclosure
- Principle 6.** Respect the rights of shareholders
- Principle 7.** Recognise and manage risk
- Principle 8.** Encourage enhanced performance
- Principle 9.** Remunerate fairly and responsibly
- Principle 10.** Recognise the legitimate interests of stakeholders

Stratatel Limited's corporate governance practices were in place throughout the year ended 30 June 2008 and were fully compliant with the Council's best practice recommendations except where noted.

## LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board of Directors are accountable to the shareholders for the proper management of the business and affairs of Stratatel. The Board and executive management use their diverse skills and knowledge to work towards consistently operating in the best interests of the company.

The Board has confirmed its roles and responsibilities in a written charter.

The role of the Board is to oversee the strategic direction and management of the company and to oversee the financial position on behalf of its shareholders. The Board undertakes to serve and protect the interests of shareholders, as well as employees, customers and all other interested stakeholders.

The Board undertakes the following primary functions and responsibilities:

- oversight of the company;
- approve, monitor and modify the strategic direction of the company;
- ratify the appointment of the Chief Executive Officer, Chief Financial Officer and Company Secretary;
- monitor the performance of executive management;
- ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- monitor and approve financial results;
- approve and monitor the progress of major capital expenditure, capital management, acquisitions and divestures; and
- comply with the reporting and other requirements of the law.

The Board has delegated the daily financial and operational management of the company to the executive management, who are responsible to the Board.

## 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 is included in the Directors' Report. Directors of Stratatel 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 judgment.

In the context of director independence, 'materiality' is considered from both the company 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.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

<b>Name</b>	<b>Position</b>
I Macliver	Chairman, Non-Executive
G Lambert	Non-Executive Director
G Baillie	Non-Executive Director

There are procedures in place, agreed by the Board, to enable directors in the 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:

<b>Name</b>	<b>Term in Office</b>
I Macliver	8 years
M Fairclough	10 years
G Lambert	8 years
G Baillie	1 year

### Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the Chairman conducted performance evaluations that involved an assessment of each Board member's and key executive's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Stratatel Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

### Remuneration Committee

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive management 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 executive directors and executives emoluments to the company's financial and operational performance.

The expected outcomes of the remuneration structures are:

- retention and motivation of key executives;
- attraction of high quality management to the company; and
- performance incentives that allow executives to share the success of the company.

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, other than statutory superannuation, to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the Chief Executive Officer and executive team. The Board has established a Remuneration Committee, comprising all non-executive directors during the period.

*Members of the Remuneration Committee throughout the year were:*

I Macliver (Chairman)  
G Lambert  
M Fairclough

For details on the number of meetings of the Remuneration Committee held during the year and the attendees at those meetings, refer to page 13 of the Directors' Report.

### PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

All directors, officers, executive management and employees are expected to act with integrity and objectivity, striving at all times to enhance the performance and reputation of the company. They must always act in accordance with the interests of shareholders, employees, customers and other interested stakeholders.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Board has established a Code of Conduct for Directors which is designed to ensure that Directors have a clear understanding of the Company's expectations of their conduct. This Code deals with the following issues:

- Fiduciary Responsibilities
- Duties
- Conflict of Interest
- Disclosure of Benefits
- Needs in Relation to Information and Advice
- Confidentiality
- Trading in Company Securities
- Responsibility for Accounts
- Obligations in Relation to Health, Safety and Environment
- Product Integrity
- Deed of Access, Indemnity and Insurance

A Code of Conduct has also been established for application to Directors, staff and consultants. This Code deals with the following issues:

- Ethics
- Treatment of Colleagues
- The Law
- Secret Commissions and Gifts
- Conflicts of Interest
- Confidentiality and Protection of Assets and Information
- Unauthorised Public Statements
- Trading in Company Securities
- Political Contributions or Donations
- Breaches of the Code of Conduct

The Code of Conduct for Directors and the Code of Conduct (for directors, staff and consultants) are posted on the Company's web site.

### Share Trading

The company's Share Trading Policy regulates dealings by the company's directors, officers, executive management, vendors, consultants and employees in shares, options and other securities issued by the company.

Consistent with the legal prohibition relating to insider trading all of the parties listed are prohibited from trading in the company's shares, options or other securities whilst in the possession of unpublished price sensitive information which concerns the company.

Price sensitive information is information that a reasonable person would expect to have a material effect on the price or value of the company's securities.

The Share Trading Policy restricts the trading of securities in the company when there may be price sensitive information in circulation. Restrictions also apply to security trades within 24 hours of the release of the company's half-yearly and annual financial results as well as the period 4 weeks before and 24 hours after the close of Stratatel's Annual General Meeting.

### SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The company has in place policies and procedures to ensure the accuracy and factual presentation of its financial position. The Board also undertakes to monitor and assess the integrity of the financial reports.

Stratatel requires that the Chief Executive Officer and Chief Financial Officer state in writing to the Board that the company's financial reports present a true and fair view, in all material aspects, of Stratatel's financial condition and operational results and that they are in accordance with relevant accounting standards.

### 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.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

*The members and qualifications of the Audit Committee during the year were:*

<b>Name</b>	<b>Qualifications</b>
I Macliver	B.Comm., CA, F Fin, MAICD
G Lambert (Chairman)	M.Econ., SAFin, FAICD

Whilst the ASX Guidelines recommend that this Committee should exist with a minimum of three directors, the majority of which are independent, it is felt that the size of the Board renders this unnecessary. The company is confident that its current Committee members bring valuable knowledge, skills and experience to Committee deliberations.

The Audit Committee's Charter contains details about the Committee's roles and responsibilities, composition, structure and membership requirements. It also contains information on the procedures for the selection and appointment of the external auditor and for the rotation of external audit partners.

The meetings and attendance of the Audit Committee are detailed on page 13 of the Directors' Report.

### MAKE TIMELY AND BALANCED DISCLOSURE

In compliance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules, the company is committed to the principles of timely and balanced disclosure through the adoption and adherence of a Continuous Disclosure Policy.

Stratatel's Chief Executive Officer and Company Secretary, with Board approval, carry the responsibility and accountability to ensure the principles of continuous disclosure are upheld and maintained. These principles ensure the ASX and media releases are timely, reviewed, and that they are factual and are presented in a clear and balanced way.

### RESPECT THE RIGHTS OF SHAREHOLDERS

Stratatel recognises the importance of this principle and will at all times strive to communicate regularly and clearly with its shareholders.

The Stratatel website includes a section for investors where all announcements released by the company to the ASX can be viewed, including general releases, meeting information, financial reports and investor presentations. This is updated as announcements are released to the ASX so that shareholders have ready access to company information.

Investors and shareholders can also subscribe to the company's electronic mailing list to receive all company announcements as they are uploaded to the Stratatel website. Interested parties are encouraged to visit the Stratatel website and complete the on-line e-mail subscription form.

Shareholders are encouraged to attend and participate at general meetings. They are encouraged to vote on resolutions presented at the Annual General Meeting including the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the Stratatel Constitution.

Stratatel will request the attendance at the Annual General Meeting of the external auditors so they are readily available to answer questions about the conduct of the audit and the preparation and content of the Auditor's Report.

### RECOGNISE AND MANAGE RISK

The Board, together with executive management, continuously seek to identify, monitor and mitigate risk. The Audit Committee is responsible for adopting policies on risk oversight and management.

Currently the company has the following risk management controls embedded in the company's management and reporting system:

- a comprehensive annual insurance program;
- strategic and operational business plans; and
- annual budgeting and monthly reporting systems which enable the monitoring of performance against expected targets and the evaluation of trends.

The company requires the Chief Executive Officer and the Chief Financial Officer state to the Board, in writing, that:

- the integrity of financial statements is founded on a sound system of risk management and internal compliance and control; and
- Stratatel's risk management and internal compliance and control system is operating efficiently and effectively in all material aspects.

### ENCOURAGE ENHANCED PERFORMANCE

The Board acknowledges the work of the directors, executive management and employees can always be improved and that their performance should be examined regularly against both measurable and qualitative indicators.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Whilst the Board has not established a formal Nomination Committee due to the relatively small size of the company, the role of the Nomination Committee is adequately exercised by the Board in its entirety. The Board, in this capacity, are responsible for ensuring the effectiveness of the reviews and also that adequate induction procedures are implemented to allow new Board appointees and executive management to fully participate in Board deliberations and Stratatel operations, respectively, at the earliest opportunity.

Directors, executive management and employees have access to continuing education and training to enable them to enhance and improve their knowledge and skills.

The Company Secretary is appointed by and reports to the Board on all corporate governance issues. He is responsible for the provision of timeframes and information to enable the Board to effectively discharge its duties and responsibilities. All directors of Stratatel have access to the Company Secretary to assist them in carrying out their role.

### REMUNERATE FAIRLY AND RESPONSIBLY

Stratatel's current remuneration practices are set to enable the company to attract and retain highly talented and motivated directors, executive management, and employees.

The Remuneration Report details and discloses the annual remuneration for key management personnel.

The company has established a Remuneration Committee to adopt and review remuneration policies which will:

- enable the company to attract and retain directors (executive and non-executive) and senior management who will create sustainable value for all stakeholders; and
- fairly and responsibly reward executive management and directors, having regard to the performance of the company, the performance of the individual and the market indicators.

Details of the Remuneration Committee members and meetings attended can be found earlier in this Statement.

Fees paid to non-executive directors are detailed in Table 1 on page 11 of the Directors' Report. The Board are paid their fees in cash, including statutory superannuation contributions. They do not receive any bonus payments nor are they entitled to any payment upon retirement or resignation.

### RECOGNISE THE LEGITIMATE INTEREST OF STAKEHOLDERS

This is covered in the two Codes of Conduct mentioned previously and posted on the Company's web site. Policies contained in those Codes such as conduct of business, treatment of colleagues, compliance with the law, prohibition of secret commissions, conflicts of interest, respect of the environment and occupational health and safety are directed towards observing the interests of stakeholders.

### FINANCE AND TREASURY COMMITTEE

The role of the Finance and Treasury Committees is handled by the Board. The Board is responsible for:

- establishing and monitoring the company's capital management strategy, including dividend payment strategies, for consideration;
- assessing the company's funding requirements and assessing specific funding proposals; and
- monitoring borrowings from financial institutions and compliance with borrowing covenants;

Monitoring the financial risks and exposure from movements in interest rates and exchange rates is also undertaken by the board.

Due to the size of the company a formal Finance and Treasury Committee has not been established with the Board undertaking this role as part of its duties.

### NOMINATION COMMITTEE

The Board has not formally established a Nomination Committee, with the Board performing the function of the Nomination Committee when required, including when necessary, selecting candidates for the position of director.

## AUDITOR'S INDEPENDENCE DECLARATION



Accountants | Business and Financial Advisers

As lead auditor for the audit of the financial report of Stratatel Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Stratatel Limited.

**Perth, Western Australia**  
**1st September 2008**

**W CLARK**  
**Partner, HLB Mann Judd**

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated 2008 \$	Consolidated 2007 \$	Parent 2008 \$	Parent 2007 \$
Revenue	2	6,224,656	3,291,304	2,857,116	2,753,023
Cost of goods sold		(457,299)	(171,003)	(168,391)	(136,796)
Employee benefits expense		(2,881,159)	(1,816,603)	(1,107,688)	(1,448,327)
Other employee related expense		(570,728)	(261,956)	(292,772)	(220,694)
Communications expense		(128,507)	(75,812)	(69,603)	(62,670)
Advertising and marketing		(8,324)	(3,320)	(6,249)	(3,320)
Professional fees		(389,858)	(240,750)	(248,388)	(228,005)
Occupation expense		(382,915)	(194,270)	(206,637)	(162,316)
Listing expense		(37,492)	(22,048)	(32,023)	(21,453)
Depreciation and amortisation expense		(162,397)	(51,222)	(135,192)	(43,128)
Finance costs		(3,606)	(4,168)	(3,069)	(3,982)
Other expenses		(167,519)	(52,597)	(104,686)	(49,522)
<b>Profit before income tax</b>		<b>1,034,852</b>	<b>397,555</b>	<b>482,418</b>	<b>372,810</b>
Income tax benefit	3	345,933	291,747	346,744	291,747
<b>Profit after tax</b>		<b>1,380,785</b>	<b>689,302</b>	<b>829,162</b>	<b>664,557</b>
Basic earnings per share (cents per share)	5	1.62	0.87	0.97	0.84
Diluted earnings per share (cents per share)	5	1.62	0.86	0.97	0.83

The accompanying notes form part of these financial statements

# CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2008

	Notes	Consolidated 2008 \$	Consolidated 2007 \$	Parent 2008 \$	Parent 2007 \$
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	7	1,066,455	1,195,882	896,487	1,112,714
Trade and other receivables	8	1,860,687	689,546	574,852	505,269
Inventory	9	46,928	41,746	–	–
Other financial assets		125,059	62,862	52,954	20,104
<b>Total Current Assets</b>		<b>3,099,129</b>	<b>1,990,036</b>	<b>1,524,293</b>	<b>1,638,087</b>
<b>Non-Current Assets</b>					
Property, plant and equipment	10	206,755	230,695	100,822	106,579
Development	11	1,558,724	1,055,218	1,260,419	1,012,297
Intangible assets	11	4,123,785	997,799	54,171	54,171
Investments in subsidiaries	21	–	–	170,204	170,204
Other receivables	8	38,061	48,320	2,731,796	390,776
Investments	7	21,917	21,917	21,917	21,917
Deferred tax asset		439,036	138,196	357,857	138,196
<b>Total Non-Current Assets</b>		<b>6,388,278</b>	<b>2,492,145</b>	<b>4,697,186</b>	<b>1,894,140</b>
<b>Total Assets</b>		<b>9,487,407</b>	<b>4,482,181</b>	<b>6,221,479</b>	<b>3,532,227</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Trade and other payables	14	2,912,658	683,919	496,609	379,429
<b>Total Current Liabilities</b>		<b>2,912,658</b>	<b>683,919</b>	<b>496,609</b>	<b>379,429</b>
<b>Non-Current Liabilities</b>					
Provisions	15	79,501	28,568	5,990	7,849
Other payables	14	200,000	600,000	–	–
<b>Total Non-Current Liabilities</b>		<b>479,501</b>	<b>628,568</b>	<b>5,990</b>	<b>7,849</b>
<b>Total Liabilities</b>		<b>3,192,159</b>	<b>1,312,487</b>	<b>502,599</b>	<b>387,278</b>
<b>Net Assets</b>		<b>6,295,248</b>	<b>3,169,694</b>	<b>5,718,880</b>	<b>3,144,949</b>
<b>Equity</b>					
Issued capital	16	7,918,832	5,846,808	7,918,832	5,846,808
Reserves	16	104,343	29,891	104,343	29,891
Accumulated losses		(1,727,927)	(2,707,005)	(2,304,295)	(2,731,750)
<b>Total Equity</b>		<b>6,295,248</b>	<b>3,169,694</b>	<b>5,718,880</b>	<b>3,144,949</b>

The accompanying notes form part of these financial statements

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated 2008 Inflows/ (Outflows) \$	Consolidated 2007 Inflows/ (Outflows) \$	Parent 2008 Inflows/ (Outflows) \$	Parent 2007 Inflows/ (Outflows) \$
<b>Cash flows from operating activities</b>					
Receipts from customers		4,925,226	3,268,655	2,661,985	2,758,883
Payments to suppliers and employees		(3,762,260)	(2,914,869)	(2,020,864)	(2,561,299)
Interest received		71,628	72,729	69,102	72,157
Interest paid		(3,606)	(4,168)	(3,069)	(3,982)
Income tax received		45,093	153,551	127,083	153,551
Net cash provided by/(used in) operating activities	7	1,276,081	575,898	834,237	419,310
<b>Cash flows from investing activities</b>					
Purchase of businesses, net of cash acquired	7	(1,763,381)	(467,147)	-	-
Investment in subsidiaries		-	-	-	(170,204)
Loans to subsidiaries		-	-	(2,314,183)	(342,456)
Purchase of non-current assets		(78,433)	(54,210)	(39,771)	(52,374)
Payment for other investments		(1,205,746)	(407,949)	(338,552)	(290,852)
Net cash used in investing activities		(3,047,560)	(929,306)	(2,692,506)	(855,886)
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares		2,165,000	-	2,165,000	-
Dividends paid		(389,708)	-	(389,708)	-
Share issue costs paid		(133,250)	-	(133,250)	-
Net cash provided by financing activities		1,642,042	-	1,642,042	-
Net decrease in cash and cash equivalents		(129,437)	(353,408)	(216,227)	(436,574)
Cash and cash equivalents at 1 July 2007		1,195,882	1,549,290	1,112,714	1,549,290
<b>Cash and cash equivalents at 30 June 2008</b>		<b>1,066,445</b>	<b>1,195,882</b>	<b>896,487</b>	<b>1,112,714</b>

The accompanying notes form part of these financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Ordinary Shares \$	Accumulated Losses \$	Equity Benefits Reserve \$	Total \$
<b>Consolidated</b>				
<b>As at 1 July 2006</b>	5,758,488	(3,396,307)	–	2,362,181
Profit/(loss) for the period	–	397,555	29,891	427,446
Income tax benefit	–	291,747	–	291,747
	5,758,488	(2,707,008)	29,891	3,081,374
Shares issued	88,320	–	–	88,320
<b>Balance at 30 June 2007</b>	5,846,808	(2,707,005)	29,891	3,169,694
<b>As at 1 July 2007</b>	5,846,808	(2,707,008)	29,891	3,169,691
Profit/(loss) for the period	–	1,034,852	74,452	1,109,304
Income tax benefit	–	345,933	–	345,933
Dividends declared	–	(401,704)	–	(401,704)
	5,846,808	(1,727,927)	104,343	4,223,224
Share issue costs	(129,824)	–	–	(129,824)
Shares issued	2,201,848	–	–	2,201,848
<b>Balance at 30 June 2008</b>	7,918,832	(1,727,927)	104,343	6,295,248
<b>Parent</b>				
	Ordinary Shares \$	Accumulated Losses \$	Equity Benefits Reserve \$	Total \$
<b>As at 1 July 2006</b>	5,758,488	(3,396,307)	–	2,362,181
Profit/(loss) for the period	–	372,810	29,891	402,701
Income tax benefit	–	291,747	–	291,747
	5,846,808	(2,731,750)	29,891	3,056,629
Shares issued	88,320	–	–	88,320
<b>Balance at 30 June 2007</b>	5,846,808	(2,731,750)	29,891	3,144,949
<b>As at 1 July 2007</b>	5,846,808	(2,731,753)	29,891	3,144,946
Profit/(loss) for the period	–	482,418	74,452	556,870
Income tax benefit	–	346,744	–	346,744
Dividends declared	–	(401,704)	–	(401,704)
	5,846,808	(2,304,295)	104,343	3,646,856
Share issue costs	(129,824)	–	–	(129,824)
Shares issued	2,201,848	–	–	2,201,848
<b>Balance at 30 June 2008</b>	7,918,832	(2,304,295)	104,343	5,718,880

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) 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 Accounting Standards and Interpretations and complies with other requirements of the law. The financial report has also been prepared on a historical cost basis, except for investment properties, land and buildings, derivative financial instruments and available-for-sale investments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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

The company is a listed public company, incorporated in Australia.

#### (b) Adoption of new and revised standards

In the year ended 30 June 2008, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2007. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Group has also adopted the following Standards as listed below which only impacted on the Group's financial statements with respect to disclosure:

- AASB 101 'Presentation of Financial Instruments' (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2008. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

#### (c) Statement of Compliance

The financial report was authorised for issue on 29th August 2008.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

#### (d) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Stratatel Limited and its subsidiaries as at 30 June each year (the Group).

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 transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **(e) Significant accounting judgments, estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

##### *Impairment of goodwill and intangibles with indefinite useful lives:*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 12.

##### *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 Black – Scholes model, using the assumptions detailed in Note 13.

#### **(f) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *(i) Sale of goods*

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

##### *(ii) Rendering of services*

Revenue from the rendering of services is recognised upon delivery of the service to the customer.

##### *(iii) Interest income*

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

#### **(g) Borrowing Costs**

Borrowing costs are recognised as an expense when incurred except those that relate to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

#### **(h) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs – refer Note 1(g).

Finance leased assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **(i) Cash and cash equivalents**

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Cash and cash equivalents (continued)

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

#### (j) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

#### (k) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on an average cost basis; and

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### (l) Income tax

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

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

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (l) Income tax (continued)

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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.

#### (m) Other taxes

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

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

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

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

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

#### (n) Property, plant and equipment

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

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a diminishing value basis over the estimated useful life of the assets as follows:

Plant and equipment – 7.5% – 40%

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

#### (i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (n) Property, plant and equipment (continued)

##### (ii) Derecognition and disposal

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

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

#### (o) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

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

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

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

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 *Segment Reporting*.

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

relates. 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.

#### (p) Intangible assets

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 charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **(p) Intangible assets (continued)**

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

#### *Research and development costs*

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

A summary of the policies applied to the Group's intangible assets follows. These policies are consistent with those of the previous financial year unless otherwise stated.

#### **Development Costs**

##### *Useful life*

Finite

##### *Amortisation method used*

The FleetManager® system as commercialised in July 2007 has been amortised using the straight line method over the 2008 financial year based

on an estimated useful life of 10 years. Additional modules in development will be amortised when commercialised.

##### *Internally generated or acquired*

Internally generated

##### *Impairment testing*

Annually for assets not yet available for use and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end.

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.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **(p) Intangible assets (continued)**

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### **(q) Trade and other payables**

Trade payables and other payables are carried at amortised costs and 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.

#### **(r) Provisions**

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

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

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.

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

#### **(s) 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 other payables 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. Liabilities 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 in the provision for employee benefits 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 period 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.

#### **(t) Share-based payment transactions**

##### *Equity settled transactions:*

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

There are currently two plans in place to provide these benefits:

- the Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives; and
- the Employee Share Loan Plan (ESLP), which provides benefits to all employees, excluding senior executives and directors.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **(t) Share-based payment transactions (continued)**

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 the Black- Scholes model, further details of which are given in Note 13.

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

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

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

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

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

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 5).

#### **(u) Issued capital**

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

#### **(v) Earnings per share**

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

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Consolidated 2008 \$	Consolidated 2007 \$	Parent 2008 \$	Parent 2007 \$
NOTE 2: REVENUES AND EXPENSES				
<b>(a) Revenue</b>				
Operating activities				
Consultancy income	13,007	44,048	5,726	44,048
MobileFleet® income	1,438,573	1,492,523	1,438,573	1,492,523
FleetManager® – mobiles	1,171,707	825,523	1,139,022	825,523
FleetManager® – other modules	–	23,456	–	23,456
Infratel income	76,033	97,474	76,033	97,474
PoolCarManager income	52,915	97,936	52,915	97,936
Development income	90,680	91,830	75,745	91,830
OnTrac income	446,538	293,667	–	–
Softlog sales income	1,459,116	205,022	–	–
Softlog maintenance income	858,190	35,031	–	–
Phoneware installation income	20,390	–	–	–
Phoneware CADS income	427,523	–	–	–
Phoneware vendor provided income	88,679	–	–	–
Phoneware Octel income	9,477	–	–	–
Interest income	71,628	72,729	69,102	72,157
Non-Operating activities				
Other income	200	12,065	–	8,076
Rebates & refunds	–	–	–	–
	6,224,656	3,291,304	2,857,116	2,753,023
<b>(b) Expenses</b>				
Interest expense	3,606	4,168	3,069	3,982
Depreciation of non-current assets	71,967	51,222	44,762	43,128
Operating lease rental expense: minimum lease payments	287,040	149,285	155,179	124,410

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<b>Consolidated 2008 \$</b>	<b>Consolidated 2007 \$</b>	<b>Parent 2008 \$</b>	<b>Parent 2007 \$</b>
<b>NOTE 3: INCOME TAX</b>				
<b>Income tax recognised in profit or loss</b>				
The major components of tax expense are:				
Current tax expense	150,801	–	68,811	–
R&D tax offset	(147,971)	(153,551)	(127,083)	(153,551)
Deferred tax asset:				
Origination and reversal of temporary differences	(118,763)	–	(58,472)	–
Benefit of tax losses recognised	(230,000)	(138,196)	(230,000)	(138,196)
<b>Total tax expense/(income)</b>	<b>(345,933)</b>	<b>(291,747)</b>	<b>(346,744)</b>	<b>(291,747)</b>

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Accounting profit/(loss) before tax	1,034,852	397,555	482,418	372,810
Income tax expense calculated at 30%	310,456	119,267	144,725	111,843
Non-deductible expenses	56,397	24,028	50,566	20,997
Share issue expenses – deductible	(17,800)	(11,812)	(17,800)	(11,812)
Unrecognised tax losses	2,634	6,734	–	–
Utilisation of tax losses brought forward	(68,811)	(110,728)	(68,811)	(110,728)
Recognition of losses not previously recognised	(236,943)	(138,196)	(230,000)	(138,196)
R & D tax offset	(147,971)	(153,551)	(127,083)	(153,551)
Other	(243,895)	(27,489)	(98,341)	(10,300)
<b>Income tax benefit reported in the consolidated income statement</b>	<b>(345,933)</b>	<b>(291,747)</b>	<b>(346,744)</b>	<b>(291,747)</b>

Income tax for the period is payable by the subsidiaries but not the parent. The directors have considered it prudent to bring to account \$230,000 of deferred tax assets from accumulated losses for the period to 30 June 2008. As more probable assessable income becomes likely the Group will bring to account deferred tax assets of a nature and amount to enable such assets to be realised.

The Consolidated Group has tax losses arising in Australia of \$2,864,018 (2007: \$3,099,620) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

The Parent Company has tax losses arising in Australia of \$2,855,237 (2007: \$3,084,608) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

## NOTE 4: SEGMENT REPORTING

### Segment Information

The Group operates predominantly in one business and geographical segment being the software development industry throughout Australia.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5: EARNINGS PER SHARE

	<b>Consolidated</b>	
	<b>2008 Cents per share</b>	<b>2007 Cents per share</b>
Basic earnings per share	1.62	0.87
Diluted earnings per share	1.62	0.86
	<b>\$</b>	<b>\$</b>
<i>Basic earnings per share:</i>		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:		
Earnings	1,380,785	689,302
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	84,714,130	79,574,716
	<b>\$</b>	<b>\$</b>
<i>Diluted earnings per share:</i>		
The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share is as follows:		
Earnings	1,380,785	689,302
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares for the purposes of diluted earnings per share:	84,714,130	80,278,278
(i) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:		
Weighted average number of shares used in the calculation of basic earnings per share	84,714,130	79,574,716
Shares deemed to be issued for nil consideration in respect of:		
Employee options	–	703,562
Weighted average number of shares used in the calculation of diluted earnings per share	84,714,130	80,278,278
(ii) The following potential ordinary shares are not dilutive and are therefore excluded from the calculation in (i) above:		
Employee options – expiring various dates	3,296,849	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6: DIVIDENDS

	<b>Consolidated 2008 \$</b>	<b>Parent 2008 \$</b>
<i>Paid dividends</i>		
On fully paid ordinary shares:		
• Maiden unfranked dividend of 0.25 cents per share paid to shareholders on 15th October 2007	200,852	200,852
• Interim unfranked dividend for the 2008 financial year of 0.25 cents per share paid to shareholders on 8th April 2008	200,852	200,852
Total dividends paid for 2008 financial year	<u>401,704</u>	<u>401,704</u>

The company had no available franking credits.

### NOTE 7: CASH AND CASH EQUIVALENTS

	<b>Consolidated 2008 \$</b>	<b>Consolidated 2007 \$</b>	<b>Parent 2008 \$</b>	<b>Parent 2007 \$</b>
Cash at bank and on hand	1,066,455	945,882	896,487	862,714
Short-term deposits	–	250,000	–	250,000
	<u>1,066,455</u>	<u>1,195,882</u>	<u>896,487</u>	<u>1,112,714</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

<b>(i) Cash balances not available for use</b>	<u>21,917</u>	<u>21,917</u>	<u>21,917</u>	<u>21,917</u>
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The company has committed a rent bond under an operating lease for office space.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7: CASH AND CASH EQUIVALENTS (CONTINUED)

#### (ii) Acquisition of business

Effective 1st May 2008, a wholly owned subsidiary of Stratatel Ltd, Airchoice.com Pty Ltd, acquired the business and assets of Phoneware Communication Systems Pty Ltd, a software development and support company specialising in the provision of Call Accounting and Directory Services (CADS) software. Airchoice.com Pty Ltd immediately changed its name to Phoneware Pty Ltd following completion.

	<b>Consolidated 2008 \$</b>	<b>Consolidated 2007 \$</b>	<b>Parent 2008 \$</b>	<b>Parent 2007 \$</b>
Details of the acquisition are as follows:				
<i>Consideration</i>				
Cash and cash equivalents	1,800,000	-	-	-
Equity (deferred script)	300,000	-	-	-
Deferred consideration	400,000	-	-	-
Acquisition adjustments	(436,619)	-	-	-
Amount paid	<u>2,063,381</u>	-	-	-
<i>Fair value of net assets acquired</i>				
Current assets				
Cash and cash equivalents	-	-	-	-
Receivables	79,534	-	-	-
Prepayments	41,956	-	-	-
Current liabilities				
Loans	(46,754)	-	-	-
Unearned Income	(558,109)	-	-	-
Non-current liabilities				
Provisions	(71,463)	-	-	-
Net assets acquired	<u>(554,836)</u>	-	-	-
Goodwill arising on acquisition	2,618,217	-	-	-
	<u>2,063,381</u>	-	-	-
Net cash outflow on acquisition				
Cash and cash equivalents consideration	1,363,381	-	-	-
Net cash outflow	<u>1,363,381</u>	-	-	-

The assets and liabilities arising from the acquisition are recognised at fair value, which are equal to their carrying value at acquisition date.

If the combination had taken place at the beginning of the year, the profit before tax of the Group would have increased by \$758,740 and revenue from continuing operations would have increased by an additional \$2,766,745.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7: CASH AND CASH EQUIVALENTS (CONTINUED)

	<b>Consolidated 2008 \$</b>	<b>Consolidated 2007 \$</b>	<b>Parent 2008 \$</b>	<b>Parent 2007 \$</b>
<b>(iii) Reconciliation of profit for the year to net cash flows from operating activities</b>				
Profit for the year	1,380,785	689,302	829,162	664,557
Non Cash flows in operating profit/(loss):				
Depreciation and amortisation	162,397	51,222	135,192	43,129
Equity settled share based payment	74,452	29,891	74,452	29,891
(Increase)/decrease in assets:				
Current receivables	(1,171,141)	(315,870)	(69,583)	(172,791)
Current inventories	(5,182)	(3,409)	–	–
Other current assets	(62,197)	(42,308)	(32,850)	901
Non-current receivables	9,719	–	9,719	–
Deferred tax assets	(300,840)	(138,196)	(219,661)	(138,196)
Increase/(decrease) in liabilities:				
Current payables	1,137,155	305,266	105,947	(8,181)
Non-current provisions	50,933	–	1,859	–
Net cash from operating activities	<u>1,276,081</u>	<u>575,898</u>	<u>834,237</u>	<u>419,310</u>

### NOTE 8: TRADE AND OTHER RECEIVABLES

#### Current:

Trade receivables	1,869,797	704,192	583,962	519,915
Allowance for doubtful debts	(9,110)	(14,646)	(9,110)	(14,646)
	<u>1,860,687</u>	<u>689,546</u>	<u>574,852</u>	<u>505,269</u>

#### Non-Current:

Loans to subsidiaries	–	–	2,693,735	342,456
Employee share loans	38,061	48,320	38,061	48,320
	<u>38,061</u>	<u>48,320</u>	<u>2,731,796</u>	<u>390,776</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9: INVENTORIES

	<b>Consolidated 2008 \$</b>	<b>Consolidated 2007 \$</b>	<b>Parent 2008 \$</b>	<b>Parent 2007 \$</b>
Raw materials – at cost	31,982	22,055	–	–
Finished goods – at net realisable value	14,946	19,691	–	–
	<u>46,928</u>	<u>41,746</u>	<u>–</u>	<u>–</u>
Inventory write-downs charged to cost of sales totalled \$239 (2006: \$Nil)				

### NOTE 10: PLANT AND EQUIPMENT

Cost	499,005	420,572	328,134	288,363
Accumulated depreciation and impairment losses	(292,250)	(189,877)	(227,312)	(181,784)
	<u>206,755</u>	<u>230,695</u>	<u>100,822</u>	<u>106,579</u>

<b>Parent</b>	<b>Cost \$</b>	<b>Accumulated Depreciation \$</b>	<b>TOTAL \$</b>
Movements:			
Balance as at 1 July 2006	235,989	(138,655)	97,334
Additions	52,374	–	52,374
Depreciation charges	–	(43,129)	(43,129)
Balance as at 30 June 2007	<u>288,363</u>	<u>(181,784)</u>	<u>106,579</u>
Additions	39,771	–	39,771
Depreciation charges	–	(45,528)	(45,528)
Balance as at 30 June 2008	<u>328,134</u>	<u>(227,312)</u>	<u>100,822</u>
<b>Consolidated</b>			
Balance as at 1 July 2006	235,989	(138,655)	97,334
Additions	54,210	–	54,210
Acquisition of a subsidiary	130,373	–	130,373
Depreciation charges	–	(51,222)	(51,222)
Balance as at 30 June 2007	<u>420,572</u>	<u>(189,877)</u>	<u>230,695</u>
Additions	78,433	–	78,433
Depreciation charges	–	(102,373)	(102,373)
Balance as at 30 June 2008	<u>499,005</u>	<u>(292,250)</u>	<u>206,755</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 11: INTANGIBLE ASSETS AND GOODWILL

<b>Consolidated</b>	<b>Software Development \$</b>	<b>Goodwill \$</b>	<b>Total \$</b>
<b>Year ended 30 June 2007</b>			
At 1 July 2006, net of accumulated amortisation and impairment	683,151	54,171	737,322
Additions	372,067	–	372,067
Acquisition of a subsidiary	–	943,628	943,628
At 30 June 2007, net of accumulated amortisation and impairment	1,055,218	997,799	2,053,017
<b>Year ended 30 June 2008</b>			
At 1 July 2007, net of accumulated amortisation and impairment	1,055,218	997,799	2,053,017
Additions	593,936	3,125,986	3,719,922
Amortisation charge	(90,430)	–	(90,430)
At 30 June 2008, net of accumulated amortisation and impairment	1,558,724	4,123,785	5,682,509

In-house developed software is expected to have an estimated useful life of ten years following commercialisation.

Goodwill is not amortised but is subject to annual impairment testing (see Note 12).

No impairment loss was recognised for continuing operations in the 2008 financial year.

<b>Parent</b>	<b>Software Development \$</b>	<b>Goodwill \$</b>	<b>Total \$</b>
<b>Year ended 30 June 2007</b>			
At 1 July 2006, net of accumulated amortisation and impairment	683,151	54,171	737,322
Additions	329,146	–	329,146
At 30 June 2007, net of accumulated amortisation and impairment	1,012,297	54,171	1,066,468
<b>Year ended 30 June 2008</b>			
At 1 July 2007, net of accumulated amortisation and impairment	1,012,297	54,171	1,066,468
Additions	338,552	–	338,552
Amortisation charge	(90,430)	–	(90,430)
At 30 June 2008, net of accumulated amortisation and impairment	1,260,419	54,171	1,314,590

Goodwill is not amortised but is subject to annual impairment testing (see Note 12).

No impairment loss was recognised for continuing operations in the 2008 financial year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 12: IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

Goodwill acquired through business combinations have been allocated to 5 individual cash generating units (CGU), which are reportable segments, for impairment testing as follows:

- FleetManager®
- Phoneware
- Vircom
- Softlog
- eFleet

#### *FleetManager®*

The recoverable amount of the FleetManager CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period.

The discount rate applied to cash flow projections, including a factor for risk, is 12.00% (2007: 5.97%) and cash flows beyond five years have not been prepared due to the asset not being impaired.

Senior management believes this forecast is justified based on the client base and the reliance on the FleetManager® application in general. Focus is firmly locked on client retention to reduce client loss, whilst a sales team actively sources new opportunities and the FleetManager® application continues to be developed to provide a comprehensive asset and expense management product for multiple asset classes such as mobile telephones, taxi charge cards and credit cards.

Additionally the group continues to invest in sales and marketing activity to promote the FleetManager® solution throughout Australia.

#### *Phoneware*

The recoverable amount of the Phoneware unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a three year period.

The discount rate applied to cash flow projections, including a factor for risk, is 12.00% and cash flows beyond three years have not been prepared due to the asset not being impaired.

Senior management believes this forecast is justified based on the client base and the reliance on the Phoneware products in general.

#### *Vircom*

The recoverable amount of the Vircom unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a two year period.

The discount rate applied to cash flow projections, including a factor for risk, is 12.00% (2007: 5.97%) and cash flows beyond two years have not been prepared due to the asset not being impaired.

Senior management believes this forecast is justified based on the client base and the reliance on the Vircom products in general.

#### *Softlog*

The recoverable amount of the Softlog unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a four year period.

The discount rate applied to cash flow projections, including a factor for risk, is 12.00% (2007: 5.97%) and cash flows beyond five years have not been prepared due to the asset not being impaired.

Senior management believes this forecast is justified based on the sales activity shown since acquisition on 1 May 2007 being higher than the same time the previous year with more advanced cost recovery systems continuing to be developed for the accounting and legal markets. Softlog continue to build and enhance their softlog.onboard™ applications that reside within the operating system of the Multi-Function Device (MFD) in addition to new applications.

Additionally, the group has committed to investing in an additional high calibre professional sales individual to promote and market the Softlog solutions in the state of NSW, a previously under performing market due to a lack of direct sales activity.

#### *eFleet*

The recoverable amount of the eFleet unit is also determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a two year period.

The discount rate applied to the cash flow projections, including a factor for risk, is 12.00% (2007: 5.97%).

Senior management believes this rate is justified given the reliance by the clients on the products.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12: IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES (CONTINUED)

Carrying amount of intangibles allocated to each of the cash generating units

At 30 June 2008

	Consolidated				Total \$
	Softlog \$	Vircom \$	eFleet \$	FleetManager \$	
Carrying amount of goodwill	1,280,585	170,812	-	54,171	2,618,217
Carrying amount of developed software	272,301	-	-	1,152,419	26,004
Carrying amount of acquired intellectual property	-	-	108,000	-	-
Carrying amount of goodwill	1,552,886	170,812	108,000	1,206,590	2,644,221

At 30 June 2008

	Parent		Total \$
	eFleet \$	FleetManager \$	
Carrying amount of goodwill	-	54,171	54,171
Carrying amount of developed software	-	1,152,419	1,152,419
Carrying amount of acquired intellectual property	108,000	-	108,000
Carrying amount of goodwill	108,000	1,206,590	1,314,590

At 30 June 2007

	Consolidated			Total \$
	Softlog \$	Vircom \$	eFleet \$	
Carrying amount of goodwill	772,816	170,812	-	54,171
Carrying amount of developed software	42,921	-	-	904,297
Carrying amount of acquired intellectual property	-	-	108,000	-
Carrying amount of goodwill	815,737	170,812	108,000	958,468

At 30 June 2007

	Parent		Total \$
	eFleet \$	FleetManager \$	
Carrying amount of goodwill	-	54,171	54,171
Carrying amount of developed software	-	904,297	904,297
Carrying amount of acquired intellectual property	108,000	-	-
Carrying amount of goodwill	108,000	958,468	1,066,468

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 12: IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES (CONTINUED)

#### Key assumptions used in value in use calculations for 30 June 2008 and 30 June 2007

The following describes each key assumption on which management has based its cash flow projections when determining the value in use of all the cash generating units.

- Budgeted gross margins – the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements. Thus, values assigned to gross margins reflect past experience, except for efficiency improvements.
- Bond rates – the yield on a 3 year government bond rate at the beginning of the budgeted year is used.
- Risk factor – an additional amount of 5.17% has been factored for general business risk.

### NOTE 13: SHARE BASED PAYMENT PLANS

#### Employee Share Option Plan

The Employee Share Option Scheme provides for employees and executives to receive options over ordinary shares for no consideration. Each option is convertible to one ordinary share. There are no voting rights or dividend rights attached to unissued ordinary shares.

The contractual life of each option granted is 5 years. There are no cash settlement alternatives.

#### General Employee Share Ownership Plan

All other employees are entitled to a share loan once they have been in service for 1 year. The loans are interest free with recourse limited to the underlying shares. The loans are made based on the market price of the underlying shares on the grant date and are not subject to any specific vesting conditions.

The expense recognised in the income statement in relation to share-based payments is disclosed in Note 16.

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

	2008 No.	2008 Weighted average exercise price	2007 No.	2007 Weighted average exercise price
Outstanding at the beginning of the year	1,450,000	\$0.12	1,150,000	\$0.20
Granted during the year	2,300,000	\$0.12	1,200,000	\$0.10
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	900,000	\$0.20
Outstanding at the end of the year	3,750,000	\$0.12	1,450,000	\$0.12
Exercisable at the end of the year	3,750,000		1,450,000	

The weighted average remaining contractual life for the share options outstanding as at 30 June 2008 is between 3 and 5 years (2007: 2 and 4 years).

The range of exercise prices for options outstanding at the end of the year was \$0.10 – \$0.20 (2007: \$0.10 – \$0.20)

The weighted average fair value of options granted during the year was \$0.12 (2007: \$0.10).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 13: SHARE BASED PAYMENT PLANS (CONTINUED)

The outstanding balance as at 30 June 2008 is represented by:

- 250,000 options over ordinary shares with an exercise price of \$0.20 each, exercisable upon meeting the above conditions and until 21 July 2008;
- 1,200,000 options over ordinary shares with an exercise price of \$0.10 each, exercisable upon meeting the above conditions and until 30 November 2011;
- 1,000,000 options over ordinary shares with an exercise price of \$0.10 each, exercisable upon meeting the above conditions and until 15 January 2011;
- 1,000,000 options over ordinary shares with an exercise price of \$0.12 each, exercisable upon meeting the above conditions and until 29 May 2011; and
- 300,000 options over ordinary shares with an exercise price of \$0.15 each, exercisable upon meeting the above conditions and until 24 June 2012

The following table lists the inputs to the model used for the years ended 30 June 2007 and 30 June 2008:

	<b>2008</b>	<b>2007</b>
Volatility (%)	36.78	31.10
Risk-free interest rate (%)	6.56	5.59
Expected life of option (years)	5	5
Exercise price (cents)	10.0 to 15.0	10.0
Weighted average share price at grant date (cents)	7.7	9.7

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The fair value of the options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The services received and a corresponding expense is recognised over the expected vesting period.

### NOTE 14: TRADE AND OTHER PAYABLES

	<b>Consolidated 2008 \$</b>	<b>Consolidated 2007 \$</b>	<b>Parent 2008 \$</b>	<b>Parent 2007 \$</b>
Current:				
Trade payables (i)	1,310,609	420,674	185,978	210,460
Other payables	11,148	–	11,148	–
Accrued expenses	490,901	263,245	299,484	168,969
Deferred equity scrip	300,000	–	–	–
Deferred consideration	800,000	–	–	–
	<b>2,912,658</b>	<b>683,919</b>	<b>496,609</b>	<b>379,429</b>
Non-current:				
Deferred consideration	200,000	600,000	–	–
Total deferred consideration	<b>200,000</b>	<b>600,000</b>	<b>–</b>	<b>–</b>

(i) Trade payables are non-interest bearing and are normally settled on 60-day terms.

Information regarding the effective interest rate and credit risk of current payables is set out in Note 17.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 15: PROVISIONS

	<b>Consolidated 2008 \$</b>	<b>Consolidated 2007 \$</b>	<b>Parent 2008 \$</b>	<b>Parent 2007 \$</b>
Employee benefits:				
Provision for long service leave	79,501	28,568	5,990	7,849

### NOTE 16: ISSUED CAPITAL AND RESERVES

	<b>Consolidated 2008 \$</b>	<b>Consolidated 2007 \$</b>	<b>Parent 2008 \$</b>	<b>Parent 2007 \$</b>
Ordinary shares issued and fully paid	7,918,832	5,846,808	7,918,832	5,846,808

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

	<b>No.</b>	<b>\$</b>
<i>Movement in ordinary shares on issue</i>		
At 1 July 2006	79,570,496	5,758,488
Issued on 29 June 2007 as consideration for acquisition of business assets	266,666	40,000
Issued on 29 June 2007 pursuant to the Employee Share Ownership Plan	503,555	48,320
At 1 July 2007	80,340,717	5,846,808
Issued on 9 May 2008 pursuant to a rights issue	27,062,500	2,165,000
Issued on 9 May 2008 as part consideration for acquisition of business assets	3,000,000	300,000
Issued on 24 June 2008 pursuant to the Stratatel Dividend Reinvestment Plan	426,163	36,650
Share Issue costs	–	(133,250)
At 30 June 2008	110,829,380	8,215,208

#### Share options

The company has one share based option scheme under which options to subscribe for the company's shares have been granted to certain executives and other employees. Refer Note 13.

	<b>Consolidated 2008 \$</b>	<b>Consolidated 2007 \$</b>	<b>Parent 2008 \$</b>	<b>Parent 2007 \$</b>
<b>Reserves</b>				
Movements in reserves were as follows:				
Balance 1 July 2007	29,891	–	29,891	–
Equity benefits reserve – options issued to staff	74,452	29,891	74,452	29,891
Balance 30 June 2008	104,343	29,891	104,343	29,891

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 16: ISSUED CAPITAL AND RESERVES (CONTINUED)

#### Nature and purpose of reserves

##### *Employee Equity benefits reserve*

This reserve is used to record the value of equity benefits provided to employees as part of their remuneration. Refer to Note 13 for further details of these plans.

### NOTE 17: FINANCIAL INSTRUMENTS

#### (a) Capital risk management

Capital risk is managed and monitored by liaising with banks and communicating with shareholders.

Stratatel considers new government legislation and monitors the market place by canvassing information from stockbrokers and investors.

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

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

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Categories of financial instruments</b>				
<b>Financial assets</b>				
Loans and receivables	1,860,687	689,546	574,852	505,269
Cash and cash equivalents	1,066,455	1,195,882	896,487	1,112,714

#### **Financial liabilities**

The Group has no derivative instruments in designated hedging relationships.

##### *Loans and receivables designated as at fair value through profit or loss*

Carrying amount of loans and receivables

designated as 'fair value through profit

or loss'

1,860,687	689,546	574,852	505,269
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Changes in fair value attributable to changes in credit risk are recognised during the period.

#### (b) Financial risk management

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

The Group's principal financial liabilities are trade payables and hire purchase contracts. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

It is, and has been throughout 2008 and 2007, the Group's policy that no trading in derivatives shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 17: FINANCIAL INSTRUMENTS (CONTINUED)

#### (c) Price risk – equity and commodity

The Group's exposure to commodity and equity securities price risk is minimal.

#### (d) Foreign currency risk

The Group is not exposed to any foreign currency risk as the Group trades mainly within Australia.

#### (e) Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments including those exposed to interest rate risk:

	within 1 year \$	1 to 5 years \$	Total \$	Weighted average effective interest rate %
<b>Year ended 30 June 2008</b>				
<b>Consolidated</b>				
<i>Financial assets</i>				
Fixed rate:				
Trade and other receivables	1,860,687	–	1,860,687	–
	1,860,687	–	1,860,687	
Floating rate:				
Cash assets	1,066,455	–	1,066,455	7.04
	1,066,455	–	1,066,455	
	2,927,142	–	2,927,142	
<i>Financial liabilities</i>				
Payables	2,712,658	–	2,712,658	–
Other payables	–	200,000	200,000	–
	2,712,658	200,000	2,912,658	
	within 1 year \$	1 to 5 years \$	Total \$	Weighted average effective interest rate %
<b>Year ended 30 June 2007</b>				
<b>Consolidated</b>				
<i>Financial assets</i>				
Fixed rate:				
Trade and other receivables	689,546	–	689,546	–
	689,546	–	689,546	
Floating rate:				
Cash assets	1,195,882	–	1,195,882	5.60
	1,195,882	–	1,195,882	
	1,885,428	–	1,885,428	
<i>Financial liabilities</i>				
Payables	683,919	–	683,919	–
Other payables	–	600,000	600,000	–
	683,919	600,000	1,283,919	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 17: FINANCIAL INSTRUMENTS (CONTINUED)

	within 1 year \$	1 to 5 years \$	Total \$	Weighted average effective interest rate %
<b>Year ended 30 June 2008</b>				
<b>Parent</b>				
<i>Financial assets</i>				
Fixed rate:				
Trade and other receivables	574,852	–	574,852	–
	574,852	–	574,852	
<i>Floating rate:</i>				
Cash Assets	896,487	–	896,487	7.04
	896,487	–	896,487	
	1,471,339	–	1,471,339	
<i>Financial liabilities</i>				
Payables	496,609	–	496,609	–
	496,609	–	496,609	
<b>Year ended 30 June 2007</b>				
<b>Parent</b>				
<i>Financial assets</i>				
Fixed rate				
Trade and other receivables	505,269	–	505,269	–
	505,269	–	505,269	
<i>Floating rate</i>				
Cash Assets	1,112,714	–	1,112,714	5.60
	1,112,714	–	1,112,714	
	1,617,983	–	1,617,983	
<i>Financial liabilities</i>				
Payables	379,429	–	379,429	–
	379,429	–	379,429	

For all financial instruments, the net fair value approximates their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised forms.

Interest on financial instruments classified as floating rate is fixed at intervals of less than one year. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 17: FINANCIAL INSTRUMENTS (CONTINUED)

#### Interest rate risk sensitivity analysis

The sensitivity analyses below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's net profit would increase by \$5,087 and decrease by \$5,087 respectively (2007:\$6,494). This is mainly attributable to the Group's exposure to interest rates on its variable rate cash deposits.

#### (f) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, 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. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

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 financial institutions to minimise the risk of default of counterparties.

#### Accounts Receivable and Provision

##### Trade Receivables – Past Due Not Impaired

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

			0-30 days	31-60 days	61-90 day	61-90 days	+91 days	+91 days
		Total			PDNI*	CI*	PDNI*	CI*
2008	Consolidated	1,860,687	1,668,360	62,597	36,059	–	93,671	–
	Parent	574,852	510,551	40,842	22,025	–	1,434	–
2007	Consolidated	689,546	635,590	48,981	1,881	–	3,094	–
	Parent	505,269	426,795	73,499	1,881	–	3,094	–

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

Receivables past due but not considered impaired are: Consolidated \$129,730 (2007: \$4,975); Parent \$23,459 (2007: \$4,975).

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 17: FINANCIAL INSTRUMENTS (CONTINUED)

#### Movements in Allowance for Impairment (Trade Receivables)

Movements in the allowance for impairment loss on trade receivables were as follows:

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
At 1 July 2007	14,646	14,646	14,646	14,646
Reduction in allowance	5,536	–	5,536	–
At 30 June 2008	9,110	14,646	9,110	14,646

At the reporting date there are no significant concentrations of credit risk relating to loans and receivables at fair value through profit or loss. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables.

#### (g) Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

### NOTE 18: COMMITMENTS AND CONTINGENCIES

Remuneration Commitments	Consolidated	Consolidated	Parent	Parent
	2008 \$	2007 \$	2008 \$	2007 \$
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:				
Within one year	400,000	330,000	400,000	330,000
After one year but not more than five years	200,000	445,000	200,000	445,000

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of directors and executives referred to in the Remuneration Report of the Directors' Report that are not recognised as liabilities and are not included in the directors' or executives' remuneration.

#### Legal claim

There are no legal claims against the Group.

#### Guarantees

Stratatel Limited has the following guarantees at 30 June 2008:

- that all obligations required under an operating lease for office space utilised by its wholly owned subsidiary Softlog Systems Pty Ltd are guaranteed by the parent.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 19: EVENTS AFTER THE BALANCE SHEET DATE

No significant events have transpired since the close of the financial year ended 30 June 2008 to the date this financial report was authorised for issue.

### NOTE 20: AUDITOR'S REMUNERATION

The auditor of Stratatel Limited is HLB Mann Judd.

	<b>Consolidated 2008 \$</b>	<b>Consolidated 2007 \$</b>	<b>Parent 2008 \$</b>	<b>Parent 2007 \$</b>
<i>Amounts received or due and receivable by HLB Mann Judd for:</i>				
An audit or review of the financial report of the entity and any other entity in the consolidated group	61,783	23,500	37,180	23,500

### NOTE 21: RELATED PARTY DISCLOSURE

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

<i>Name</i>	<i>Country of Incorporation</i>	<i>% Equity Interest</i>		<i>Investment (\$)</i>	
		<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Vircom Pty Limited	Australia	100	100	170,204	170,204
Softlog Systems Pty Ltd	Australia	100	100	–	–
Phoneware Pty Ltd	Australia	100	–	–	–

Stratatel Limited is an Australian entity and ultimate parent of the Group. Vircom Pty Limited, Softlog Systems Pty Ltd and Phoneware Pty Ltd are all incorporated in Australia.

The Group has no plans to dispose of any subsidiaries.

Guarantees provided or received for any related party receivables or payables have been disclosed in Note 18.

For the year ended 30 June 2008, the Group has not made any allowance for doubtful debts relating to amounts owed by related parties due to solid payment history (2007: \$nil). An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

<i>Related party</i>	<i>Sales to related parties \$</i>	<i>Purchases From Related Parties \$</i>	<i>Amounts Owed by Related parties \$</i>	<i>Amounts Owed to Related parties \$</i>
2008				
Grange Consulting Group Pty Ltd	–	31,593	–	–
2007				
Grange Consulting Group Pty Ltd	–	22,000	–	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 21: RELATED PARTY DISCLOSURE (CONTINUED)

Fees paid are in respect of corporate advice received from Grange Consulting Group Pty Ltd of which a Director, Mr Ian Macliver, is a Director.

#### *Terms and conditions of transactions with related parties*

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

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

### NOTE 22: DIRECTORS AND EXECUTIVE DISCLOSURES

#### **(a) Details of Key Management Personnel**

##### *(i) Directors*

I Macliver	Chairman (non-executive)	
M Fairclough	Chief Executive Officer/Managing Director	
G Lambert	Director (non-executive)	
G Baillie	Director (non-executive)	<i>appointed 20 Sept 2007</i>

##### *(ii) Executives*

P Brown	Company Secretary/Chief Information Officer	<i>appointed 14 Jul 2003</i>
M Parry	General Manager – Operations	<i>appointed 18 Jul 2005</i>
J Worsfold	General Manager – Sales	<i>appointed 11 Jul 2005</i>
J Butchers	Chief Financial Officer	<i>appointed 26 Nov 2007</i>
D Farrell	Branch Manager – Softlog Systems	<i>promoted 1 March 2008</i>

There are no other changes of the CEO or key management personnel after the reporting date and the date the financial report was authorised for issue.

#### **(b) Compensation of Key Management Personnel**

##### *(i) Compensation Policy*

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Group must attract, motivate and retain highly skilled directors and executives. The philosophy of the company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

##### **(A) Remuneration Committee**

The Remuneration Committee of the Board of Directors of the Parent is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer (CEO) and all other key management personnel.

The Remuneration Committee assesses the appropriateness of the nature and amount of compensation of key management personnel 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 quality board and executive team.

##### **(B) Remuneration Structure**

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 22: DIRECTORS AND EXECUTIVE DISCLOSURES (continued)

### **(b) Compensation of Key Management Personnel (continued)**

#### **(C) Non-executive Director Compensation**

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 ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 8th November 2007 when shareholders approved an aggregate remuneration of \$250,000 per year.

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

Each director receives a fee for being a director of the company. An additional fee is also paid for each Board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees.

The remuneration of non-executive directors for the year ended 30 June 2008 is detailed in Table 1 of this report.

#### *Senior executive and executive director remuneration*

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentives).

#### *Fixed Remuneration*

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The fixed remuneration component of the 5 most highly remunerated Group executives is detailed in Table 2 of this report.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 22: DIRECTORS AND EXECUTIVE DISCLOSURES (CONTINUED)

#### **(b) Compensation of Key Management Personnel (continued)**

##### *Variable Remuneration*

##### Short Term Incentive (STI)

The objective of the short term incentive 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 senior manager to achieve the operational targets and such that the cost to the company is reasonable in the circumstances.

Actual payments granted to each senior manager depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures, such as contribution to net profit after tax, customer service, revenue growth and leadership/team contribution. Only when predetermined targets are met will any STI payment be made.

The aggregate of annual payments available for executives across the company is subject to the approval of the Remuneration Committee. Payments made are delivered as a cash bonus in the following reporting period.

The company also makes long term incentive payments to reward senior executives in a manner that aligns this element of remuneration with the creation of shareholder wealth.

##### Long Term Incentive (LTI)

The LTI plan was designed to reward executives in a manner that rewards the creation of shareholder wealth over the longer term. As such LTIs are made only to executives who are able to influence the generation of shareholder wealth through company performance against the relevant long term performance hurdle.

LTI grants to executives are delivered in the form of options.

The company uses improvement in overall company performance as an indicator of prospective shareholder wealth over the longer term, reflected in earnings per share performance.

The directors are of the opinion that these results can, in part, be attributed to the remuneration policy and is satisfied that this continued improvement should result in increased wealth to shareholders over the short to medium term.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 22: DIRECTORS AND EXECUTIVE DISCLOSURES (CONTINUED)

(b) Compensation of Key Management Personnel (continued)

(ii) Compensation of Key Management Personnel for the year ended 30 June 2008

Table 1: Directors' remuneration for the year ended 30 June 2008

		Primary benefits			Post employment			Equity		Total	Performance related %
		Salary & Fees \$	Bonuses/ Commission \$	Allowances \$	Super-annuation \$	Prescribed benefits \$	Options \$				
I Macliver <i>Chairman (non executive)</i>	2007	52,500	-	-	4,725	-	-	-	-	57,225	-
	2008	67,500	-	-	6,075	-	-	-	-	73,575	-
M Fairclough <i>Managing Director/ CEO</i>	2007	293,290	-	-	26,396	-	-	-	-	319,686	-
	2008	311,922	-	-	28,073	-	-	-	-	339,995	-
G Lambert <i>Director (non executive)</i>	2007	42,000	-	-	3,780	-	-	-	-	45,780	-
	2008	55,500	-	-	4,995	-	-	-	-	60,495	-
G Baillie (appointed 20 Sept 2007) <i>Director (non executive)</i>	2007	-	-	-	-	-	-	-	-	-	-
	2008	36,000	-	-	3,240	-	-	-	-	39,240	-

Table 2: Remuneration of the named executives who received the highest remuneration for the year ended 30 June 2008

		Primary benefits			Post employment			Equity		Total	Performance related %
		Salary & Fees \$	Bonuses/ Commission \$	Allowances \$	Super-annuation \$	Prescribed benefits \$	Options \$				
P Brown <i>Chief Information Officer/Secretary</i>	2007	127,426	-	-	11,468	-	-	7,473	-	146,367	-
	2008	142,565	15,596	-	14,234	-	-	-	-	172,395	9
M Parry <i>General Manager – Operations</i>	2007	143,931	-	-	12,954	-	-	7,473	-	164,358	-
	2008	160,953	17,430	-	16,054	-	-	3,426	-	197,863	9
J Worsfold <i>General Manager – Sales</i>	2007	133,817	16,105	-	13,493	-	-	7,473	-	170,888	9
	2008	143,910	25,174	-	15,218	-	-	-	-	184,302	13
J Butchers (Appointed 26 Nov 2007) <i>Chief Financial Officers</i>	2007	-	-	-	-	-	-	-	-	-	-
	2008	108,496	-	-	9,765	-	-	-	-	118,261	-
D Farrell (Promoted 1 March 2008) <i>Branch Manager – Softlog Systems</i>	2007	-	-	-	-	-	-	-	-	-	-
	2008	130,185	-	500	11,717	-	-	-	-	142,402	-

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 22: DIRECTORS AND EXECUTIVE DISCLOSURES (CONTINUED)

#### (b) Compensation of Key Management Personnel (continued)

(iii) Compensation by category: Key Management Personnel (continued)

	Consolidated 2008 \$	Consolidated 2007 \$	Parent 2008 \$	Parent 2007 \$
Short-term	1,215,731	912,069	1,085,046	912,069
Post employment	109,371	82,086	97,654	82,086
Other long-term	3,426	29,891	3,426	29,891
	<u>1,328,528</u>	<u>1,024,046</u>	<u>1,186,126</u>	<u>1,024,046</u>

(iv) Contract for Services

The Chief Executive Officer, Mr. Michael Fairclough, is employed under contract. This current contract commenced on January 1 2007 and terminates on December 31 2009, at which point the company may wish to enter into a new employment contract with Mr. Fairclough.

This contract, following a salary review provides Mr. Fairclough with a renegotiated annual salary package of \$400,000 which includes superannuation.

The company may terminate this employment agreement at any time and without prior notice if serious misconduct has occurred. In this event only the fixed proportion of the remuneration is payable and only up until the date of the termination.

#### (c) Compensation options: Granted and vested during the year (Consolidated)

During the financial year options were granted as equity compensation benefits under the long-term incentive plan to a key manager as disclosed below. No share options have been granted to the non-executive members of the Board of Directors under this scheme. The options were issued free of charge. For further details relating to the options, refer to Note 13.

30 June 2008	Vested No.	Granted No.	Terms and Conditions for each Grant					
			Grant Date	Fair Value per option at grant date (\$) (note 19)	Exercise price per option(\$) (note 19)	Expiry Date	First Exercise Date	Last Exercise Date
<b>Executives</b>								
M Parry	300,000	300,000	24/06/08	0.025	0.15	24/06/13	25/06/08	24/06/13
<b>Total</b>	<u>300,000</u>	<u>300,000</u>						

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 22: DIRECTORS AND EXECUTIVE DISCLOSURES (CONTINUED)

#### (d) Option holdings of Key Management Personnel (Consolidated)

30 June 2008	Balance 01 Jul 07	Granted as remuneration	Options exercised	Net change Other #	Balance 30 Jun 08
<b>Executives</b>					
P Brown	300,000	–	–	–	300,000
M Parry	300,000	300,000	–	–	600,000
J Worsfold	300,000	–	–	–	300,000
J Williams	300,000	–	–	–	300,000
<b>Total</b>	<b>1,200,000</b>	<b>300,000</b>	<b>–</b>	<b>–</b>	<b>1,500,000</b>

# Includes forfeitures

30 June 2007	Balance 01 Jul 06	Granted as remuneration	Options exercised	Net change Other #	Balance 30 Jun 07
<b>Executives</b>					
P Brown	–	300,000	–	–	300,000
M Parry	–	300,000	–	–	300,000
J Worsfold	–	300,000	–	–	300,000
J Williams	–	300,000	–	–	300,000
<b>Total</b>	<b>–</b>	<b>1,200,000</b>	<b>–</b>	<b>–</b>	<b>1,200,000</b>

# Includes forfeitures

#### (e) Shareholdings of Key Management Personnel (Consolidated)

Ordinary shares held in Stratatel Limited (number)

30 June 2008	Balance 01 Jul 07	Granted as remuneration	On Exercise of Options	Net change Other #	Balance 30 Jun 07
<b>Directors</b>					
I Macliver	751,442	–	–	873,558	1,625,000
M Fairclough	8,761,064	–	–	625,000	9,386,064
G Lambert	625,943	–	–	937,500	1,563,443
G Baillie	–	–	–	4,375,000	4,375,000
<b>Executives</b>					
P Brown	110,000	–	–	–	110,000
M Parry	562,566	–	–	–	562,566
J Worsfold	527,800	–	–	195,000	722,800
J Williams	33,790	–	–	10,000	43,790
<b>Total</b>	<b>11,372,605</b>	<b>–</b>	<b>–</b>	<b>7,016,058</b>	<b>18,388,663</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 22: DIRECTORS AND EXECUTIVE DISCLOSURES (CONTINUED)

#### (e) Shareholdings of Key Management Personnel (Consolidated) (continued)

30 June 2007	Balance 01 Jul 06	Granted as remuneration	On Exercise of Options	Net Change Other	Balance 30 Jun 07
<b>Directors</b>					
I Macliver	751,442	–	–	–	751,442
M Fairclough	8,697,464	–	–	63,600	8,761,064
G Lambert	625,943	–	–	–	625,943
<b>Executives</b>					
P Brown	10,000	–	–	100,000	110,000
M Parry	562,566	–	–	–	562,566
J Worsfold	362,600	–	–	165,200	527,800
J Williams	28,990	–	–	4,800	33,790
<b>Total</b>	<b>11,039,005</b>	<b>–</b>	<b>–</b>	<b>333,600</b>	<b>11,372,605</b>

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the company would have adopted if dealing at arm's length.

#### (f) Loans to Key Management Personnel (Consolidated)

(i) Details of aggregates of loans to key management personnel are as follows:

	Balance at beginning of period	New loans	Interest charged	Payments/ reductions	Write-off	Balance at end of period	Number in group	
Total	\$	\$	\$	\$	\$	\$	No.	
	20,000	–	–	(500)	–	19,500	2	
<b>2008</b>	20,000	–	–	(500)	–	19,500	2	
	Balance at beginning of period	New loans	Interest charged	Payments/ reductions	Interest not charged	Write-off	Balance at end of period	Number in group
Total	\$	\$	\$	\$	\$	\$	\$	No.
	–	20,000	–	–	–	–	20,000	2
<b>2007</b>	–	20,000	–	–	–	–	20,000	2

#### Terms and conditions of loans

Loans to directors are interest free. Executives are not charged interest on Loans under the Employee Share Ownership Plan. There are no other loans to executives.

Two loans have been agreed for executives for \$10,000 each under the Stratatel Employee Share Ownership Plan. This provides the opportunity to acquire shares in Stratatel at a 7.5% discount to the 30 day volume weighted average share price. Eligible executives (those serving longer than twelve months) are able to acquire 10% of their annual salary in ordinary shares in the parent, plus another 2% for every year of continuous service with the company, up to a maximum of \$10,000 per year.

An interest free loan over three years provides the executive with the ability to pay for the shares in three equal instalments, with the first instalment being due 12 months after the shares are issued.

## DIRECTORS' DECLARATION

1. In the opinion of the directors:
  - a. the financial statements and notes 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 2008 and of their performance for the year then ended; and
    - ii. complying with Accounting Standards and Corporations Regulations 2001; and
  - b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2008.

This declaration is signed in accordance with a resolution of the Board of Directors.

I Macliver  
Chairman

Dated this 1st day of September 2008

# INDEPENDENT AUDITOR'S REPORT



Accountants | Business and Financial Advisers

## **To the members of STRATATEL LIMITED**

We have audited the accompanying financial report of Stratatel Limited (“the company”), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors’ declaration for both the company and the Stratatel Limited Group (“the consolidated entity”) as set out on pages 20 to 58. The consolidated entity comprises 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 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 1 (c), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### *Auditor’s Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 the auditor’s judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

### *Independence*

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Stratatel Limited and included in the Directors’ Report, would be on the same terms if provided to the directors as at the date of this auditor’s report.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### *Auditor's Opinion*

In our opinion:

- (a) the financial report of Stratatel Limited is 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 2008 and of their performance for the year then ended; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1 (c).

**HLB MANN JUDD**  
**Chartered Accountants**

**Perth, Western Australia**  
**1 September 2008**

**W CLARK**  
**Partner**

# ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

## SHAREHOLDER INFORMATION

### (a) Distribution of shareholder numbers

Category	Ordinary
1 – 1,000	27
1,001 – 5,000	14
5,001 – 10,000	48
10,001 – 100,000	178
100,000 – and over	125
	<hr/> 392 <hr/>

There are 48 shareholdings held in less than marketable parcels

### (b) Substantial shareholders

The names of the substantial shareholders listed in the company's register as at 27 August 2008 are:

Shareholder	Number ordinary
ANZ Nominees Ltd	12,185,504
Moutier Pty Ltd	11,856,884
Mr Mark Jobling	10,904,244
Mr Michael Fairclough	9,586,064

### (c) Voting rights

At members' meetings, each eligible voter (i.e eligible member, proxy, attorney or representative of an eligible member) has one vote on a show of hands; and one vote on a poll (except where a share has not been fully paid, that share will only confer that fraction of one vote which has been paid, and if the total number of votes does not constitute a whole number, the fractional part of that total will be disregarded). This is subject to the following:

- (i) Where any calls due and payable have not been paid;
- (ii) Where there is a breach of a Restriction Agreement;
- (iii) Where a member and their proxy or attorney are both present at the meeting, or if more than one proxy or attorney is present;
- (iv) Where a vote on a particular resolution is prohibited by the Corporations Act 2001, Listing Rules, ASIC or order of a Court.

### (d) Company secretary

The name of the company secretary is Paul Brown

### (e) Registered office

The address of the principal registered office in Australia is:

Level 1, 1254 Hay Street  
WEST PERTH  
WA 6005

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (CONTINUED)

### (f) Register of securities

The registers of securities are held at the following address:

Computershare Ltd  
Level 2, 45 St Georges Terrace  
PERTH  
WA 6000

### (g) Largest shareholders – ordinary shares (as of 22 August 2008)

	Name	Number of ordinary fully paid shares held	% held of issued ordinary capital
1	ANZ NOMINEES LIMITED	12,185,504	10.99
2	MOUTIER PTY LTD	11,856,884	10.70
3	MR MARK CHRISTOPHER JOBLING	10,904,244	9.84
4	MR MICHAEL FAIRCLOUGH	9,586,064	8.65
5	JDV LIMITED	4,733,527	4.27
6	INVIA CUSTODIAN PTY LIMITED	4,375,000	3.95
7	ACN 076 565 341 PTY LTD	3,000,000	2.71
8	UBS NOMINEES PTY LTD	2,626,003	2.37
9	MR DAVID SCHWARTZ	2,231,100	2.01
10	DEPONENT SERVICES PTY LTD	1,687,003	1.52
11	GLEN ALPINE PTY LTD	1,642,258	1.48
12	CORNELA PTY LTD	1,625,000	1.47
13	BRINDLE HOLDINGS PTY LTD	1,533,308	1.38
14	MR G LORD + MRS N LORD + MR R PECK	1,526,115	1.38
15	ZAP NOMINEES PTY LTD	1,425,000	1.29
16	JWS INVESTMENT PTY LTD	1,298,042	1.17
17	NICHOLLS NOMINEES PTY LTD	1,100,000	0.99
18	STARLET PROPERTIES PTY LTD	1,029,069	0.93
19	JASPER HILL RESOURCES PTY LTD	850,000	0.77
20	DR DAVID CHARLES SHELLEY-JONES	841,750	0.76
	Top 20 Shareholders (Grouped) as at 22 August 2008	76,055,871	68.62

### (h) Stock exchange listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Securities Exchange.

### (i) Restricted securities

As at 27 August 2008 there were no restricted securities on issue.

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