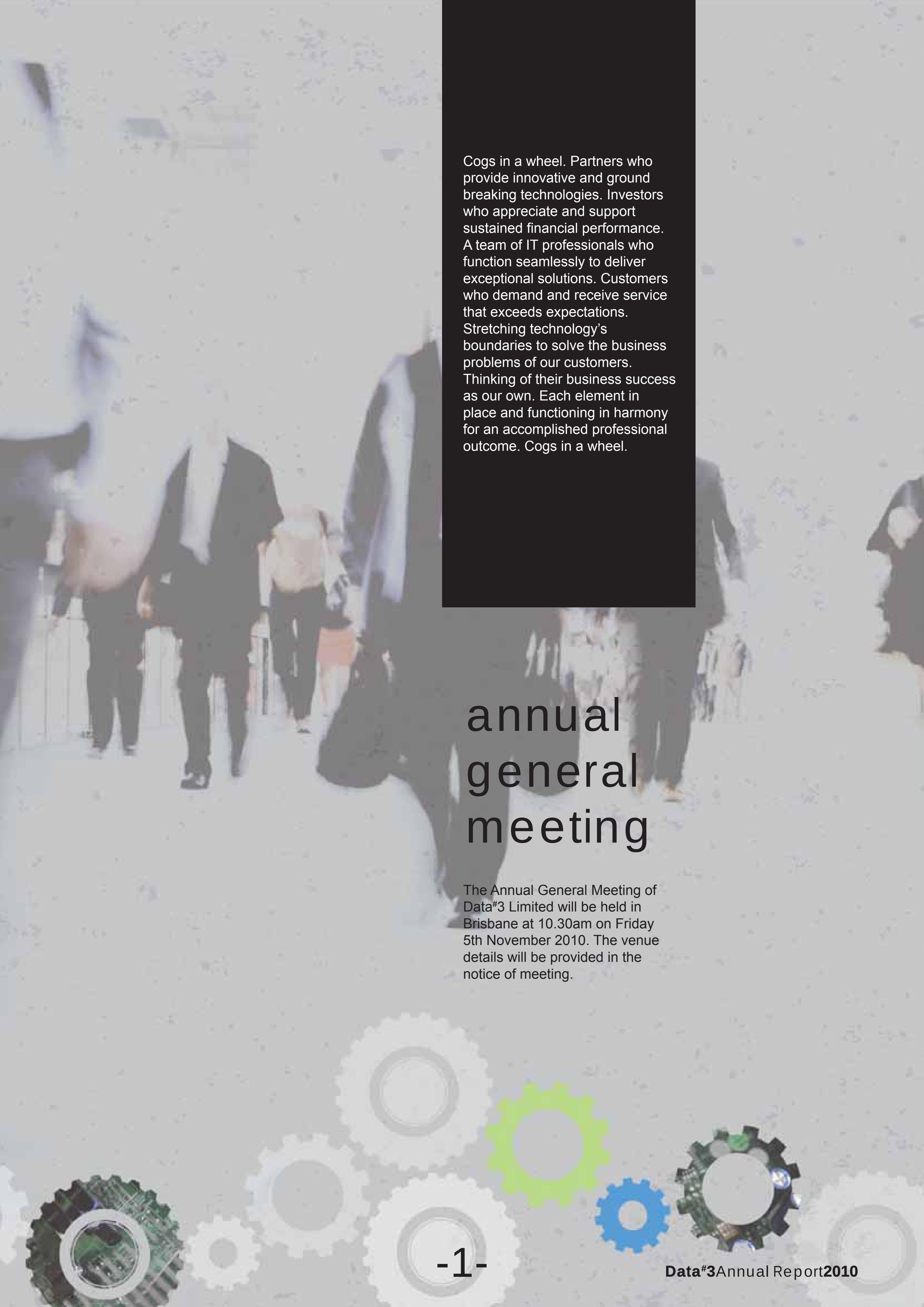
# Data#3

## annual report 2010

# contents





Cogs in a wheel. Partners who provide innovative and ground breaking technologies. Investors who appreciate and support sustained financial performance. A team of IT professionals who function seamlessly to deliver exceptional solutions. Customers who demand and receive service that exceeds expectations. Stretching technology's boundaries to solve the business problems of our customers. Thinking of their business success as our own. Each element in place and functioning in harmony for an accomplished professional outcome. Cogs in a wheel.

# annual general meeting

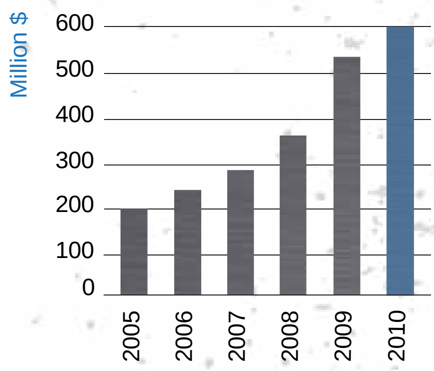
The Annual General Meeting of Data#3 Limited will be held in Brisbane at 10.30am on Friday 5th November 2010. The venue details will be provided in the notice of meeting.

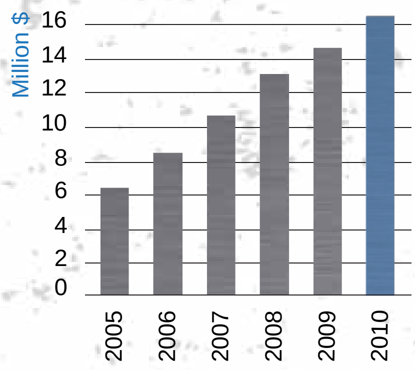
# financial highlights

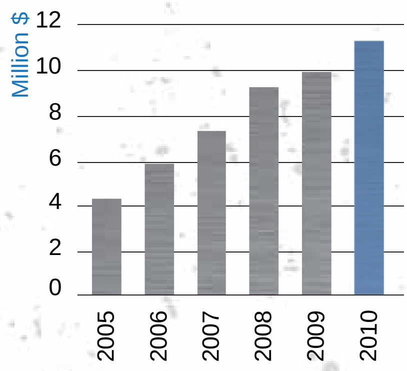
Total revenue grew by 13% to $599.2 million with 58.6% under contract

EBITDA increased by 12% to $16.3 million

Net profit after tax increased by 11% to $10.9 million



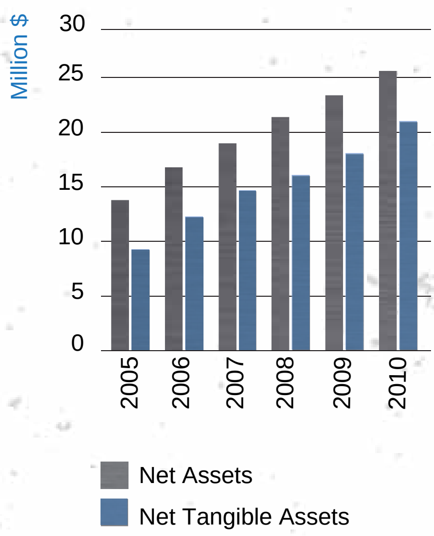



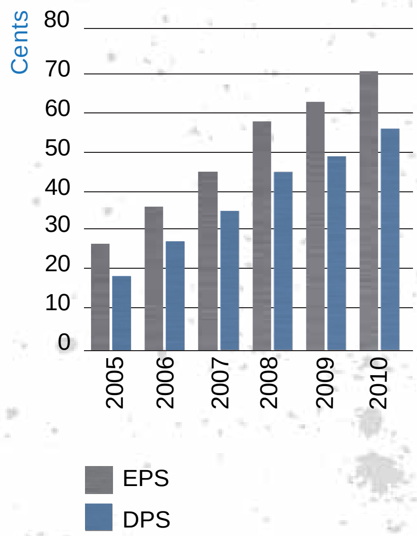



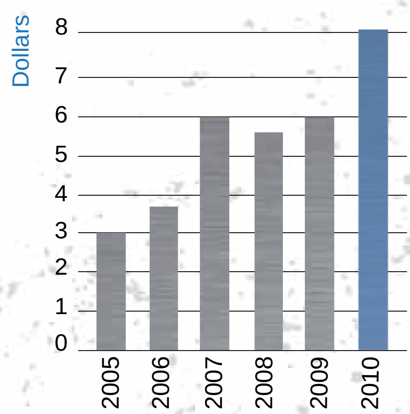

Net assets increased by 12%, and net tangible assets increased by 17%

Earnings per share up 11% to 70.9 cents Dividends per share up 12% to 56.0 cents, representing a 79% payout

Share price increased by 33% to $8.01 at 30 June 2010



# operational highlights

| Key Result Area | Performance |
|---|---|
| Remarkable People | • In a year in which increases in remuneration were limited we retained strong support as an employer of choice with 92.7% of our people indicating Data#3 is an excellent company to work for and one that they would recommend to others in the industry<br>• We continued to expand the learning environment for our people by increasing instructor-led training programs, delivering sessions across 20 business skill topics. Online training usage increased by 42%<br>• Under our Leadership Development Program, our people commenced 51 nationally recognised business skills qualifications including Diploma of Management and Certificate IV certifications in Frontline Management, Human Resources and Project Management<br>• We improved expertise and certification levels in technologies from all of our major vendor partners<br>• Our staff turnover remained at the same level as 2009, a great outcome considering the employment market improved significantly during 2010. Data#3 is 50% below the industry average for involuntary turnover (when staff are let go by the company). This is a direct indication of our quality recruitment processes and effective performance management systems |
| Outstanding Solutions | • We consolidated our Solutions Framework as a key competitive differentiator in a very competitive market<br>• We met all key partner sales objectives, achieving both local and global recognition<br>• We invested heavily in increasing the sales capability of our team, driving our tender win rate to a best in class 53% |
| Operational Excellence | • Our productivity measure (internal cost ratio = internal expenses expressed as a % of gross margin) decreased from 84.3% to 83.4%. This improvement was primarily due the realignment of staff and operating costs in our People Solutions business and despite an increased level of investment in the internal applications and infrastructure supporting our entire business<br>• We met our cash management, asset and inventory targets |
| Customer Success | • Overall customer satisfaction remained high as per the previous year<br>• Our revenue under contract decreased slightly from 59.5% to 58.6% |
| Exceptional Performance | • Cash flow from operating activities was particularly strong with a total net inflow of $44.9 million<br>• Cash flow from financing activities was a net outflow of $8.2 million, comprised solely of dividend payments<br>• Year-end cash balance increased substantially from $28.0 million to $64.3 million reflecting a significant increase in the timing benefit of receipts from customers in advance of payments to suppliers<br>• Our key trade receivables indicator of average days' sales outstanding (DSOS) was 36.5 days, ahead of the 38.5 days DSOS achieved in the previous year<br>• Inventory held on behalf of customers increased from $6.1 million to $9.0 million, reflecting an increased volume of product held pending shipment to customers<br>• Total net assets increased by 11.8% over the year and total net tangible assets increased by 17.0%.<br>• Our balance sheet remains conservative with no debt at year end.<br>• The June 30 share price increased by 33.5% to $8.01<br>• Total shareholder return for the year was 42.8% |

# chairman's report

On behalf of the board I am pleased to report on the 2010 financial year, a year in which the company's performance again improved on our previous best. In 2010, quite differently to previous years, this overall result was achieved with significant improvement in contribution from our services businesses, accompanying strong revenue growth in our volume hardware and software businesses. Further examination of the 2010 performance and a review of our expectations for the 2011 financial year are contained in our Managing Director's Review and in the Review of Operations.

While stock market conditions were at best flat over the year, the financial performance of the company continued to deliver overall returns to shareholders ahead of the market. This is reflected in dividends for the second half of 33 cents per share, payable on 30 September 2010. This adds to the first half's 23 cents for a total of 56 cents per share for the full year, an increase of 12% over the previous year. Our aim remains to continue to increase these returns over time. A 33% improvement in the company's ASX traded share price over the year rounded out an excellent result for shareholders.

At the start of the financial year and with the expectation market conditions would stabilise and potentially improve, the board set the following key objectives for the business:

1. Market share growth to ensure the business is positioned strongly to capitalise on the improving market
2. Earnings per share at least equal to the 2009 year
3. Active capital and cash management with no debt from ordinary activities.

We achieved each of these objectives.

1. In terms of market share, revenues increased 13% to $599.2 million. All businesses grew strongly with the exception of our recruitment and contracting business, People Solutions, where the focus was on profit improvement in a still sluggish market. Growth was also particularly strong in all regions outside Queensland.
2. Earnings per share increased 11% to 70.88 cents.
3. While our on-market share buy-back was extended for another 12 months from 1 September 2009, we did not buy back any shares. Control of cash flow and other balance sheet items continues to be maintained through a strong focus by the company's Corporate Services team and the company remains debt free.

The internal cost ratio (total expense as a percentage of gross margin in dollar terms) decreased from 84.3% to 83.4% which was particularly pleasing in the light of an increase of approximately 20% in internal corporate services expenditure. The overall result places your company as a top performer.

Our key strategy for organic growth continues to be well-executed by the management team. At every level, our people remain firmly committed to the company and continue to enhance their personal and professional skills both through their business engagements with clients and suppliers and through the company's internally developed programs.

This strategy has been refined through the 2011 planning process and is discussed further in the Managing Director's Review.

Our offerings position us competitively to win and ongoing investment in new internal systems has seen some improvements in operational efficiency through the 2010 financial year. We expect these gains to be more marked in 2011.

The 2011 business plans recently approved by the board target revenue growth beyond industry analyst projections, with higher staff costs as the market for skills becomes more buoyant and increased operating costs through continued investments in operational efficiency and higher occupancy costs. The plans include fine tuning of our business structure to address the changing needs of our customers and to improve our competitive position in the market.

On balance, we believe we are well positioned to improve performance over 2010 levels.

The company's management team and staff have steered us through changing market conditions very successfully and we expect this to continue. The board very much acknowledges their contribution on behalf of all shareholders.

I trust that shareholders share the confidence of management and the board in the company's future success.

R Anderson

**Richard Anderson**
**Chairman**

# managing director's review

2010 was a year marked by improving business confidence but continued constraint in ICT expenditure. Yet we achieved growth both in revenue - the commitment our customers make to us - and in profit as we leveraged the continued commitment and capability of our people and the support of our partners. At year's end we remained strongly positioned for the opportunities and challenges of 2011.

## 2010 in review

As anticipated in our 2009 annual report, market conditions throughout 2010 remained tight with our customers focused on driving greater returns from their ICT investment. This translated into sustained pressure on pricing and margins. Mindful of this, we worked with our people to constrain increases in labour costs but it became clear during the year that confidence in employment opportunities was returning and that costs were on the increase. Offsetting these trends, our market opportunity increased through the combination of yet further strengthening of the partnerships we have with the industry's major global manufacturers and continued consolidation within the reseller sector of the industry. The most significant trend in the financial performance was the increased contribution from our services businesses. Overall services revenues increased 7% to $85.0 million with our People Solutions' recruitment and contracting revenues declining 22% as the focus moved to maximising profit following the very difficult 2009 year. Our Infrastructure Solutions' professional services and Managed Services revenues increased by 28% and 34% respectively. Contribution to profit from our services businesses increased by 95%, from $3.6 million to $7.1 million.

Product revenues increased 14% but with strong growth in sales of licensed software and volume hardware product at lower margins and proportionally higher sales and processing costs, contribution to profit increased by 5% from $17.3 million to $18.1 million.

Overall we are very comfortable with this trend. Our product businesses are now the clear leaders nationally and with continued growth and enhancement of our supply chain systems we see increasing levels of profitability in the future. Growth in our services businesses enhances the business-critical relationship we have with our customers and partners and can in turn drive product revenue and offer competitive differentiation in a crowded market. I believe shareholders should be very pleased with the outcome we have achieved and with the business path we are treading as we enter 2011.

We maintained our focus on improving operational efficiency with a 40% increase in investment in internal systems and business processes. We are well underway with development of our new customer portal and, having found no solutions from within the Australian market, have engaged international expertise to assist. We are also currently implementing a replacement for our professional services time and project billing systems and have implemented a new customer service desk for our Managed Services business, a new contractor management system for our People Solutions business and many enhancements to our supply chain systems. In addition we have implemented new internal project governance and risk management methodologies which will ensure we invest to deliver the greatest return with the least risk.

Overall, corporate services expenditure increased by approximately 20% over the previous year but, in line with our plans, decreased as a percentage of overall gross margin year on year.

During a year in which increases in remuneration for our people were limited, staff turnover remained low compared with industry benchmarks and our internal survey showed we still retained very strong support as an employer of choice with 92.7% of our team indicating Data#3 is an excellent company to work for and one they would recommend to others in the industry. The survey also showed areas where we can continue to improve and we have implemented programs to achieve that improvement.

In an environment where our customers remained under considerable pressure to do more with less and one which we made more difficult in the first half as we migrated to new sales order and purchasing systems, overall satisfaction levels pleasingly remained on a par with the previous year. 92.5% indicated their expectations were either met or exceeded and 78.5% indicating their expectations were exceeded. We were particularly pleased with increased satisfaction with our needs-identification and account management capabilities and the products and services we offer. It was also clear that certain areas require more work and we are taking a range of actions to address those areas.

Our vendor partners continued to indicate their support with numerous awards received during the year including Microsoft's worldwide partner of the year for infrastructure security, HP Australia's Top Desktop Partner, Cisco's Alliance Manager of the Year, Ingram Micro's Partner of the Year, Symantec's Australian Specialist Partner of the Year and Adobe's Gold Partner of the Year. In addition, industry recognition included winning the ARN Enterprise Reseller of the Year award.

Shareholders continued to indicate their support with share price performance near the top of the sector and ahead of the ASX 200 for the year.

Once again we completed an excellent year as leaders in the industry.

## our plan for 2011

Independent analyst forecasts for 2011 are predicting growth in expenditure (revenue) ranging from 3.5% to 4%. While this is indicative of recovery, we see the opportunity to continue our growth influenced by different factors in our government and business markets in 2011.

Specifically our high level planning assumptions include:

- Pressure on government expenditure as all jurisdictions move to lower cost by consolidating agency into whole of government procurement and address the debt on their balance sheets. We see opportunity to compete with the larger global players in consolidated procurement opportunities but are mindful that such contracts carry an all or nothing risk
- Improving conditions in the business market as organisations bring projects back on line to lower their cost of operations, improve their ability to compete or to open new markets. We see opportunity to compete in most segments of the market and in most regions
- Upward pressure on labour costs as confidence that employment opportunities will improve returns and with increased competition for the best skills. We believe this will translate as an overall increase in costs per person ahead of CPI growth
- Upward pressure on occupancy costs with new premises in Brisbane and Perth and refurbished premises in Sydney
- An increasingly positive perception by partners and customers of our business's stability and strength and the experience and expertise of our people and our processes. We see this translating as increased access to opportunity.

To accommodate this environment we still believe the foundations we put in place in 2008 stand us in good stead.

Our vision remains to be an exceptional company - one that unites to enable our customers' success through technology, inspires our people to do their best every day and rewards investors' confidence and support. Our core values define our culture and remain unchanged - uniting for success; taking responsibility both individually and as a corporation; exceeding expectations; striving for excellence and innovation; being flexible and adaptable; and showing mutual respect.

Our strategy remains to focus on three areas in which we need to be successful:

- ***Remarkable people*** - inspired and supported in their passion for excellence and to do their best every day; meeting the challenge of work/life balance; empowered to contribute to positive change; and rewarded and celebrated as members of the team and as individuals
- ***Outstanding solutions*** - that embody market-leading expertise in technologies from vendors that are driving the industry globally and that quickly adapt to changes in the environment
- ***Organisational excellence*** - continuous review and improvement of the effectiveness of our business operations to ensure we remain a leader in our industry.

Achieving the objectives we have in each of these areas will see expertise and technology unite through our Solutions Framework to enable ***customer success***. Our customers' success will in turn deliver ***exceptional performance*** with the appropriate rewards to all stakeholders.

Our strategy is implemented through group and business unit plans and work plans for each of our people. The planning process this year has been more expansive than in previous years in that we have involved a broader group of our people and have planned for 2011 in the context of a set of outcomes we are targeting for 2013. These outcomes in broad terms are:

- To be the employer of choice in our industry
- To ensure our solutions are in line with the many ways our customers will be absorbing technology
- To be backed by strong and innovative partners
- To be a consistent, predictable, low risk and easy to do business with partner for our customers
- To provide valued thought leadership to our customers and partners
- To have sustained financial performance across the period.

We have developed some specific targets for each of these outcomes, identified a set of pathways we can build actions around in pursuit of these targets and set specific milestones for 2011 that once achieved will confirm we are on track to achieve the 2013 outcomes. These plans have been developed for the group as a whole and for each business unit and have been loaded to a website from which we will monitor and modify plans each quarter.

In terms of *'remarkable people'* our milestones for 2011 include:

- Continuing to increase our people's personal and professional skills and their level of certification in our partners' technologies
- Introducing a range of Data#3 certifications across sales and service delivery
- Enhancing management and leadership capability
- Enhancing career planning processes
- Improving internal communication particularly for our people located away from our offices
- Attracting and recruiting the best people in the market, and
- Aligning individual and organisational cultures.

In terms of *'outstanding solutions'*, our milestones for 2011 include:

- Further embedding the Solutions Framework within the sales process and its solution lifecycle methodology (pdo)$^2$ as our exclusive customer engagement process
- Establishing a 'Futures Forum' to identify 1 - 2 years out the solutions we need to be developing to ensure they remain relevant to our customers as they extend the ways in which they acquire and adopt technology from products → expertise → on premises solutions → outsourced solutions → access or 'cloud' solutions
- Implementing a new partnering process to ensure we optimise the benefits new partners can bring
- Increasing annuity revenues particularly in managed services as we extend our offerings to outsourcing and access
- Fully implementing our trademarked project management methodology Predictor across all delivery teams
- Sharply focusing on each competitive situation through our formal sales methodology to maximise win rates beyond that achieved in the previous year, and
- Achieving vendor sales targets and leveraging the influence we have with them to get outcomes for our customers.

And in terms of *'organisational excellence'* our milestones for 2011 include:

- Further organic expansion of our businesses in South Australia to include professional and managed services and in Western Australia to include product procurement and professional services
- Further improving our supply chain with the implementation of EDI to our major suppliers and implementation of a market-leading customer portal offering single interface to our

customers for all transactions with us
- Completing the refresh/enhancement of other internal systems to gain the identified productivity and efficiency benefits
- Ensuring best customer experience both through improved online systems and through the strong customer focus of our people
- Improving and consolidating internal procurement processes to take advantage of volume buy breaks and associated rebates
- Minimising risk through continued adoption of our risk identification and management processes
- Enhancing the mobile working environment for our people
- Ensuring the relocation of our head office in Brisbane and the refurbishment of our offices in Sydney occur with minimum disruption to the business, and
- Capturing the internal intellectual property implicit in our business methods and applying it more widely.

*'Customer success'* will be measured by the breadth and depth of their engagement with us.

*'Exceptional performance'* will be measured by:

- The overall satisfaction of our people and our customers
- Achievement of our vendor partners' objectives
- Our financial performance, and
- Investor support.

Our overall financial objective is to improve on the performance of 2010.

## conclusion

2010 saw us continue our record of year on year improvement despite business conditions. We believe we continue to be well positioned to engage with and find opportunity in an improving market. With the broad geographic access we have to the market, we are targeting to once again increase market share to deliver organic growth in all areas of the business. In addition we will remain watchful for partnering and acquisition opportunities mindful of the cultural and financial issues that accompany them.

My thanks once again go to all our stakeholders - to the people who make up the Data#3 team who have applied their expertise diligently and consistently to deliver results to our customers throughout the past year and who tell us they find passion and purpose in a career at Data#3; to our customers who continue to place their faith in us to deliver ICT solutions that allow them to meet their business goals; to our suppliers whose support has shown the value of long and mutually respectful partnerships and whose market-leading technologies are the solid base on which our solutions are built; and to our shareholders whose continued support is yet again being rewarded with the appropriate returns.

**John Grant**
**Managing Director**

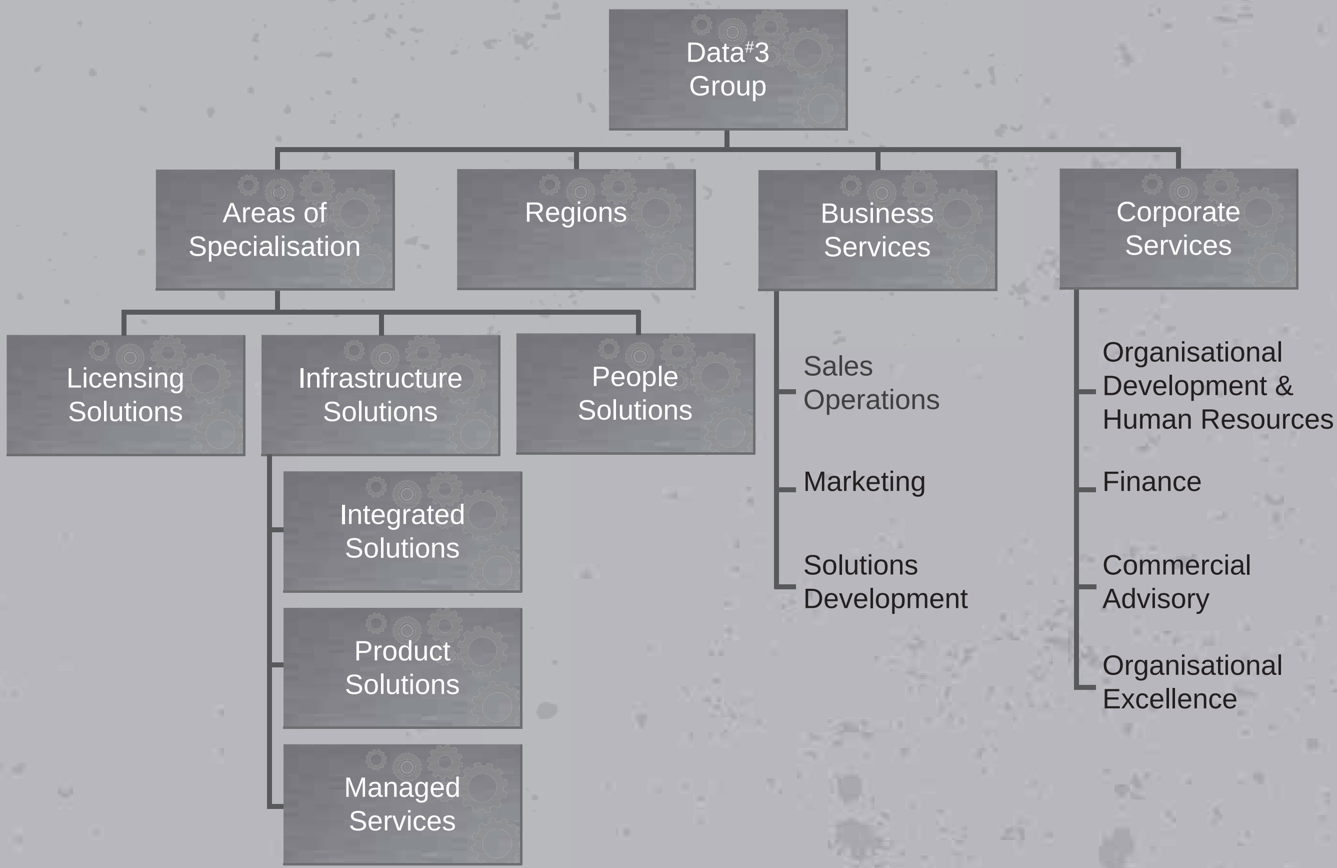
# review of operations

In a challenging and changing year we have performed successfully and maintained our revenue and profit growth. Particularly pleasing has been the year-on-year growth in market share across each region. We see these changes positioning our sales and delivery teams to achieve continued growth at greater than industry rates in 2011.

In Queensland we continue to be a leading ICT solution provider and secured a number of large state government and commercial contracts. Of particular note was our major role in the Identity, Directory and Email Services (IDES) program which is a significant whole-of-government program that will deliver centralised email, identity management and authentication service for all agencies.

In New South Wales we had stellar growth on the previous year, growing much faster than the market and acquiring a number of significant new corporate customers including NBN Co, Vodafone Hutchison Australia and Deloitte.

We had a year of investment in Victoria, growing our team by over 50% and opening a new Integration Centre to support growth of our Product Solutions business. The market saw some of our competitors falter and this created the opportunity for revenues to increase by over 20% and improve contribution to profit. The investment in 2010 positions us well for increased growth and for Victoria to represent a greater percentage of our national business.



In South Australia we grew our revenues by 76% buoyed by our success in gaining the whole-of-government Microsoft software licensing contract.

We have been operating in Western Australia for nearly three years as a Licensing Solutions-only business and are now the market leader. Utilising this success as a foundation, we made investments in the infrastructure business at the tail-end of 2010 to capitalise on the strengthening Western Australian economy and to support national customers requiring support on the west coast.

Some changes have been made to the structure of the business for 2011 to better support our field teams and our customers.

The areas of specialisation - Licensing Solutions, Infrastructure Solutions and People Solutions - remain unchanged and operate nationally through our regions. In some regions we have streamlined our sales teams to better engage with our customers and to pursue revenue growth.

However we have moved two functions - Sales Operations and Solutions Development - from within the areas of specialisation into the Business Services group and have appointed leadership to each unit to focus their contribution across the whole business. Sales Operations takes responsibility for improving the effectiveness of our national sales force and also to gain efficiencies in our supply chain. Solutions Development takes responsibility for the ongoing development of our solutions particularly ensuring they address our customers' requirements as they transition elements of their infrastructure and applications to outsourcing and the cloud.

# licensing solutions

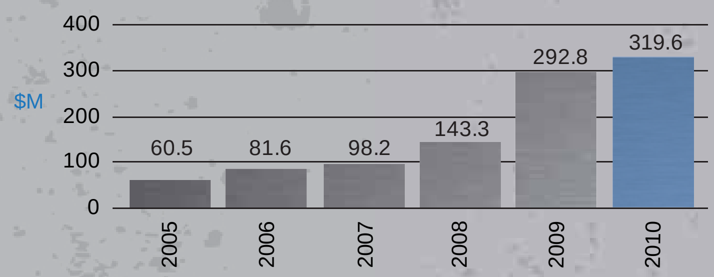
This specialisation is centred on providing software licensing and asset management services to answer our customers' need to optimise and manage the acquisition of software in volume. It operates in all our locations and is responsible for the following solution sets:

- *Software licensing*
- *Software asset management.*

Both solution sets matured during the year with the addition of further cloud-based offerings in software licensing with partners such as Microsoft, Symantec and Websense. These cloud-based offerings allow customers to access software over the internet without the need for in-house infrastructure and expertise. The Software Asset Management offering also matured further to provide a comprehensive asset management solution for both software and hardware.

For the fifteenth consecutive year, Licensing Solutions grew revenue strongly. 2010 saw growth of 9% to $319.6 million, a significant achievement in a relatively flat market and given the base on which this growth was achieved. Contribution to this performance was widespread across industry sectors, market segments and regions. Federal, state and local governments continued to provide solid results while additional volume licensing agreements were also secured in commercial small, medium and enterprise customers. Data#3 is now the leading software licensing and asset management provider in Queensland, ACT, South Australia and Western Australia and fast approaching that status in New South Wales and Victoria. Revenue increased with our largest software provider, Microsoft, however also grew substantially with our other key software vendors. With its market leading and expert team, sophisticated online systems and significantly expanded geographic reach, this business is the unquestioned leader in its field in Australia and the Pacific and one of the leaders worldwide.

licensing solutions total revenue




Other aspects of this business's performance include:

- Revenue under contract increased to $250 million
- Strong growth in revenues from software asset management services and new agreements in asset management including both software and hardware asset management
- Appointment to the Microsoft World Wide Partner Engagement Board
- Recognition by Microsoft as Partner of the Year for Australia for Licensing Solutions - License Delivery

Key initiatives that are intended to underpin performance in the Licensing Solutions specialisation in 2011 include:

- Signing of a partnering agreement with Telstra to sell Microsoft Online services
- The establishment of a tele-sales team to enhance focus on mid-market customers (< 2,000 seats)
- Introduction of a Business Productivity offering to allow users within our customers to gain more value from their software
- Further development of offerings to support our partners' cloud based solutions
- Implementation of Electronic Data Interchange (EDI) with high volume suppliers to lower operational costs
- Further investment in the online portal environment to allow customers to do business more easily with Data#3.

Licensing Solutions intends taking it to the next level in 2011 by leveraging its strong installed base and further developing its offerings. With strong support from our key software partners, Licensing Solutions expects to maintain its market-leading position while exploring new opportunities with cloud-based computing and Asset Management Services. While competition will be tight and margins in this volume business will continue to be under pressure, we expect our expertise and value-added services will result in an increased contribution to group profit over 2010.

# infrastructure solutions

This specialisation aligns with our customers' need to cost-effectively design, deploy, operate and support solutions that integrate their desktop, network and data centre hardware and software infrastructure. It operates in all locations and includes the following business units:

- Integrated Solutions - design and deployment of infrastructure solutions for the data centre, network and desktop
- Product Solutions - 'life-cycle' hardware technology solutions including advice, cost-effective procurement, delivery (typically through preferred supplier agreements, contracts and forward orders), asset tagging, deployment and disposal
- Managed Services - outsourced solutions for infrastructure maintenance, support and operation.

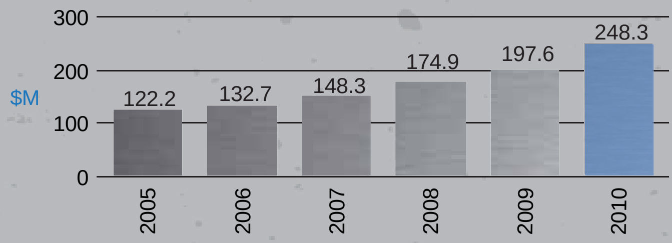
This area of specialisation is responsible for the following solution sets:

- *Strategic ICT and business alignment*
- *Network platforms*
- *Identity management*
- *Systems management*
- *Managed operating environment*
- *Unified communications and collaboration*
- *Business productivity and knowledge management*
- *Consolidation and virtualisation*
- *Disaster recovery*
- *Data management and archiving*
- *ICT product procurement and disposal*
- *Outsourcing solutions*
- *ICT hardware maintenance services*

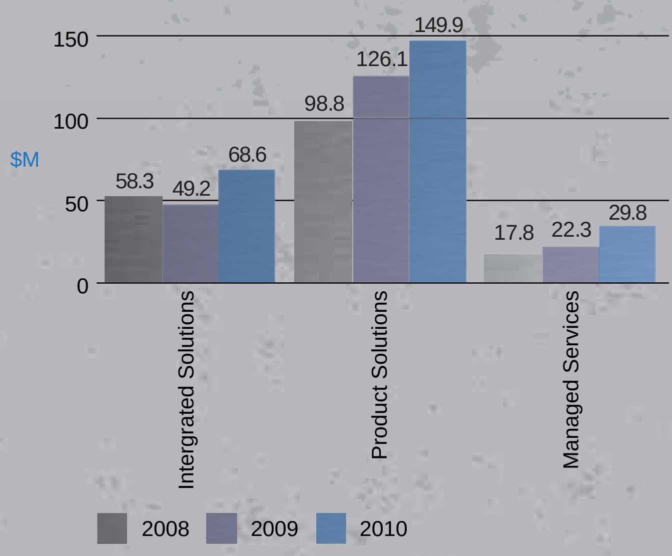
Most of these solution sets are currently provided as 'on-premises' solutions. However in the Managed Services area, solutions are provided both 'on' and 'off-premises' with options extending into the cloud environment.

Strong revenue growth of 26% exceeded market growth substantially and indicates the relevance of our offerings to our customers' needs, the increasingly strong relationships we have with the leading global technology vendors and the expertise of our team.

infrastructure solutions total revenue




revenue by business unit




Key aspects of this area's performance include:

- Strong growth in project-related Professional Services drove an overall increase in revenue (+39% to $68.6 million) and contribution to profit from Integrated Solutions. Sales of hardware in these projects remained a key element however its contribution to profit remained flat given the effects of the financial climate coupled with customers increasingly consolidating procurement

# infrastructure solutions

- Strong growth in Managed Services revenues (+34% to $29.8 million) and an increase in contribution to profit as customers continued to turn to outsourcing to address the constraint in their own resources and pressure to reduce operating costs
- Solid growth in Product Solutions revenue (+18% to $149.9 million) and increase in contribution to profit driven by the winning of several new multiyear supply contracts and stabilisation of supply chain systems implemented during 2009
- Growth in revenue under contract from $62.5 million to $80.5 million
- Expansion of the geographic reach and capacity of our warehousing and integration centres with presence now in all east coast states. These centres offer an unique differentiator to most of our competitors providing the ability to warehouse, configure, recycle and dispose of equipment for our customers
- Extraction of some of the available benefits from our new ERP implementation
- Confirmation as the leading Australian partner for HP and IBM, and entry for the first time into Cisco's top 5
- Participation in all our partners' strategic and operational advisory councils
- Retention of all key vendor certifications
- Introduction of many new customers including CenITex (Whole of Victorian Government), Bendigo Bank, Suncorp, Origin Energy, NBN Co, McWilliams Wines, National Australia Bank and Vodaphone Hutchison Australia.

Key initiatives that are intended to underpin performance in the Infrastructure Solutions specialisation in 2011 include:

- Continued increase in share of our customers' existing IT expenditure through specific targeting by our customer account executives
- A dedicated focus on acquiring new customers in conjunction with our partners
- Continued investment in the ongoing development of our solutions to drive competitive advantage
- Continued improvement in supply chain capacity and processes
- Regional expansion in Western Australia
- Continuing to improve the effectiveness of sales people through targeted skills development
- Improved productivity and project risk management through process consistency and implementation of a new professional services automation system.

**Integrated Solutions** revenues are project-based and underpinned by a number of large transactions. Hence there is potential for sizeable swings from year to year. We see continuing opportunity in consolidation and virtualisation in the data centre, unified communications and collaboration and network platforms particularly with the increasing adoption of Microsoft Windows 7.0. Additionally, we plan to accelerate offerings in ICT Strategic Consulting and Business Productivity and Knowledge Management. While we expect customer expenditure to remain tight, these offerings are well targeted to address customer business priorities and we see the potential to increase revenue and profit contribution in 2011.

**Product Solutions** revenues are increasingly contract-based and in 2011 we intend to invest further in our supply chain systems and expand capacity of our national distribution and integration centres. We will also develop a range of managed services for the supply, installation and operation of infrastructure as a service for our customers. Our intent is to consolidate our position as an organisation providing leading products and technical advice and we see the potential for solid increases in revenue and contribution to profit.

**Managed Services** offers an opportunity for us to continue to build on the solid foundation we have put in place and we are making investments in expanding sales and delivery capacity in all regions. We see the potential for good growth in revenue from outsourcing, remote management and maintenance and a solid increase in contribution to profit. We intend to leverage our investment in hosted email infrastructure and provide customers the best of all worlds with a single point for management whether the desired solution is on-premises, private cloud or public cloud through Microsoft's Business Productivity Online Suite. The introduction of our new IT Service Management System built around ITIL foundations is providing our customers a personalised client portal to review many aspects of their service. This system is now supported by an Australian based 24x7 three tier service desk to ensure our clients receive practical assistance as and when required. We will make ongoing investments in the coming year to further automate the processes underpinning this and other support services.

# people solutions

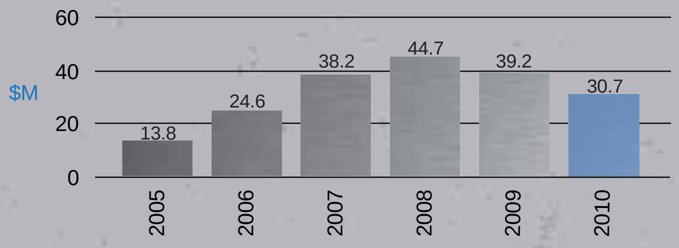
This specialisation aligns with our customers' need to recruit and/or contract people with the appropriate expertise for their internal IT function. It operates down the east coast and in the ACT and is responsible for the following solution set:

- *Workforce recruitment and consulting.*

This solution set is currently provided primarily as an 'on-premises' or outsourced solution.

2010 was a year of consolidation for the People Solutions business. Still recovering from the effects of the global financial crisis, the business saw a 22% reduction in revenue. However through ongoing restructuring and aggressive expense management the business achieved a considerable improvement in profit contribution over the previous year and developed a strong foundation for 2011.

people solutions total revenue




Key aspects of this area's performance include:

- An excellent performance from the business in Queensland delivered by a solid base of contract revenue particularly in government and strong relationships both with customers and contractors. Although contracting profit margins declined somewhat, growth in permanent recruitment increased and offset this decline
- Complete integration of our Fingerprint acquisition into our NSW operation with focus going forward on our core business of providing specialist ICT Workforce recruitment and consulting services to the market
- A much improved result in our Victorian business
- Support for our Managed Services business through our ability to address their changing staffing needs
- Reduction in operating costs and improvement in the administrative management of the business through the implementation of a new recruitment, candidate and business management application Target Recruit.

As expected the labour market has stabilised and is slowly returning to growth. We still see potential risks if key sectors of our market move away from direct contracting to recruitment process outsourcing. This could have an impact on our traditional business, particularly in Queensland. The ongoing growth of the Managed Services business will benefit our performance in 2011 as will the further expansion of our human resources consulting offerings.

To ensure the best possible performance, the following initiatives are planned for 2011:

- Our return to being a specialist ICT-only recruitment agency across all locations
- A more focused national 'go to market' strategy
- Ongoing development of a range of human resources consulting offerings.

Overall we believe 2011 can see an opportunity for growth in revenue and a solid increase in contribution to profit over 2010.

# business services

Business Services supports the sales and delivery teams in our areas of specialisation in all regions. In 2010 we increased expenditure in this area by approximately 16% over 2009.

## marketing

In support of the business's drive for growth in market share, marketing activities focused on enhancing our brand profile and targeting customer acquisition through demand generation campaigns. Our flagship customer education and networking event JuiceIT, which profiled our expertise with over 40 partner technologies, went on the road to Adelaide for the first time to receive exceptional customer and partner feedback. Its value to our customers was further evident by record attendances at our Brisbane event. Late in the financial year, we also launched the latest iteration of our online presence (www.data3.com.au), which presents our solutions and capabilities through the eyes of our customers and provides thought leadership through an increasingly strategic interactive online channel.

## sales operations

During 2010 the supply chain logistics, distribution and product configuration teams were removed from the Product Solutions business and combined with a small team focused on sales team effectiveness to form a new business unit - Sales Operations. New leadership was appointed and the new unit was charged with delivering two outcomes - leveraging an end-to-end supply chain (quotations, sales order processing, warehouse and shipments, invoicing, and configuration, deployment and disposal services) to improve customer service levels and leveraging systems and processes for Sales Forecasting, Sales Targeting, Commissions and Customer Relationship Management to optimise the effectiveness of our field sales teams.

As Data#3 continues to broaden its capability and grow, these services and the internal sales processes must perform at the optimum level of efficiency to ensure that the business remains competitive.

## solutions development

In 2010, focus for ongoing development of the solutions and offerings we take to our customers was distributed across our areas of specialisation. Consequently resources able to be applied to this function have been at best part time and hence progress has been slower than desired. In 2011, the focus on developing our solutions so that they remain relevant to our customer's needs has been centralised as a service to the whole business and new and dedicated leadership appointed. It now takes responsibility for the ongoing development of our solutions, particularly ensuring they address our customers' requirements as they transition elements of their infrastructure and applications to outsourcing and the cloud. In addition further investment will be made in refreshing and centrally managing our Solution Centres in each region. This will optimise our investment and ensure all our solutions are able to be demonstrated and piloted by our customers.

# corporate services

Corporate Services provides finance, legal, risk management, corporate marketing and human resources services and leadership in operational efficiency and innovation. In 2010 we increased expenditure in this area by approximately 20% over 2009.

## finance

Given the reduction in deposit interest rates we experienced a reduction in interest income compared to 2009. In anticipation of the tight credit market we increased resources in credit management and collection and are very satisfied with the results achieved during 2010. Following the implementation of new financial applications in June 2009 we have achieved significant efficiencies within the finance team and are in the process of improving our business planning and management reporting systems.

## commercial advisory

In 2011 we are planning to increase the level of resources in our legal and risk management team to better support our contractual review and negotiation processes and to further enhance our risk management practices and systems.

## organisational development and human resources

Organisational Development and Human Resources provides payroll, recruitment and retention, learning and performance, compliance and occupational health and safety support to the whole business. Our plan proposes little change in expenditure during 2011 to deliver programs including excellence in operational management and leadership; technical, sales and business skills certification and qualification; improved induction; a national recognition program; career and succession planning; corporate and social responsibility; work-health-life balance; and employee assistance.

## organisational excellence

Organisational Excellence is a key strategic goal for Data#3. 2010 saw the first full year of operation of this business unit which is responsible for developing a culture that focuses on operational efficiency and innovation through leadership, technology and business process optimisation. Throughout the year, the unit has concentrated on providing the tools to allow our people to perform at their best and support our customers. One such area of focus has been optimising our sales processing system and reviewing all procedures with a view to creating an end-to-end, automated and fully integrated supply chain.

Significant progress has been made towards this. We are close to delivering a first class portal for those customers who would like the flexibility of interacting with Data#3 on-line. Customers will be able to view product details, request a quote, purchase on-line or simply access information about their order. We also made significant progress towards integrating our systems to that of our vendors so that we can have up to the minute information on product availability and electronic transfer of order and invoice information.

2011 will also see the introduction of activity-based working, a flexible working model that allows work to be carried out in different ways depending on the requirement. Flexible working will deliver a host of benefits to our staff, customers and shareholders. Underpinning its success will be Data#3's new premises in Brisbane and refurbished premises in Sydney, both designed to support our staff through further developing an innovative culture and the technology to access information anywhere, anytime. Ultimately our goal is to provide staff with the right environment and the tools to do the job, making it easier for our customers to do business with Data#3.

Overall we are planning to increase Corporate Services expenditure by approximately 10% in 2011. We expect returns on this additional investment to be realised in 2011 and beyond.

# financial review

The following table sets out our performance in 2010 compared with previous years.

| | 2005<br>$'000 | 2006<br>$'000 | 2007<br>$'000 | 2008<br>$'000 | 2009<br>$'000 | 2010<br>$'000 |
|---|---|---|---|---|---|---|
| Product revenue | 158,443 | 185,042 | 214,414 | 281,845 | 450,049 | 513,585 |
| % growth | | | | | | 14.1% |
| Services revenue | 38,052 | 53,926 | 70,245 | 81,013 | 79,616 | 85,015 |
| % growth | | | | | | 6.8% |
| Total revenue | 197,129 | 239,612 | 285,117 | 363,707 | 530,481 | 599,215 |
| % growth | | | | | | 13.0% |
| Revenue under contract % | 51.4% | 53.5% | 55.4% | 57.0% | 59.5% | 58.6% |
| Total gross margin | 40,976 | 49,626 | 57,742 | 71,599 | 82,711 | 90,045 |
| % growth | | | | | | 8.5% |
| Gross margin % | 20.9% | 20.8% | 20.3% | 19.7% | 15.6% | 15.0% |
| Internal staff costs | 27,877 | 33,776 | 38,970 | 49,360 | 57,975 | 63,471 |
| % growth | | | | | | 9.5% |
| Operating expenses | 7,634 | 8,292 | 8,952 | 10,161 | 11,752 | 11,589 |
| % growth | | | | | | (1.4%) |
| Internal staff & operating expense as % of total gross margin | 86.7% | 84.8% | 83.0% | 83.1% | 84.3% | 83.4% |
| Earnings before interest (net), tax, depreciation & amortisation [EBITDA] | 6,258 | 8,266 | 10,516 | 12,919 | 14,469 | 16,262 |
| % growth | | | | | | 12.4% |
| Earnings before interest (net) & tax [EBIT] | 5,731 | 7,765 | 9,902 | 12,208 | 13,419 | 15,247 |
| % growth | | | | | | 13.6% |
| Net profit before tax | 6,099 | 8,359 | 10,338 | 13,033 | 14,153 | 15,793 |
| % growth | | | | | | 11.6% |
| Net profit after tax | 4,177 | 5,713 | 7,197 | 9,137 | 9,832 | 10,914 |
| % growth | | | | | | 11.0% |
| Net profit margin % | 2.12% | 2.38% | 2.52% | 2.51% | 1.85% | 1.82% |
| Basic earnings per share | 27.4 cents | 36.9 cents | 46.1 cents | 58.9 cents | 63.76 cents | 70.88 cents |
| % growth | | | | | | 11.2% |
| Dividends per share | 19.0 cents | 28.0 cents | 36.0 cents | 46.0 cents | 50.0 cents | 56.0 cents |
| % growth | | | | | | 12.0% |
| Payout ratio | 69.3% | 75.9% | 78.1% | 78.0% | 78.4% | 79.0% |
| Share price at 30 June | $3.00 | $3.70 | $6.00 | $5.60 | $6.00 | $8.01 |
| % growth | | | | | | 33.5% |
| Net assets | 13,797 | 16,897 | 19,077 | 21,326 | 23,333 | 26,086 |
| % growth | | | | | | 11.8% |
| Net tangible assets | 9,215 | 12,271 | 14,607 | 16,049 | 17,904 | 20,948 |
| % growth | | | | | | 17.0% |

## revenue and gross margin

Our plan for the year was to continue to gain market share and deliver organic growth in all areas of the business. We achieved these objectives and finished well ahead of industry averages increasing our total revenue by 13% to $599.2 million, with growth in all geographic regions and in all areas of specialisation except People Solutions. Overall product revenues increased by 14% to $513.6 million and services revenues increased by 7% to $85.0 million.

Our Infrastructure Solutions business (which provides a range of offerings for the design, procurement, support and management for the data centre, network and desktop environments) led this growth with total revenues increasing by 26% to $248.3 million, with strongest growth in Integrated Solutions and Managed Services and solid growth in Product Solutions. Our Licensing Solutions business (incorporating software licensing and software asset management) increased revenues by 9% to $319.6 million, well ahead of the general industry growth rate. Our People Solutions business (which provides permanent and contract recruitment services) continued to be affected by the depressed recruitment market throughout most of the year, and consequently revenue in this area decreased by 22% to $30.7 million.

The overall gross margin increased by 8.5% to $90.0 million and as a percentage of total revenue decreased slightly from 15.6% to 15.0% due to the increased proportion of lower margin product revenues and a small reduction in the gross margin % generated by our Managed Services business. We consider this an excellent result given the general expenditure constraints in the weak economic environment, the very competitive market and the resulting pressure on pricing and margins that was experienced throughout the year.

## expenses and net profit

Total internal staff expenses increased by 9.5% to $63.5 million and operating expenses decreased by 1% to $11.6 million. Consequently the cost ratio (internal staff & operating expense as a % of gross margin) improved from 84.3% to 83.4%. This decrease is primarily due to expense reduction in our People Solutions business which was restructured during 2009 to better align staff and operating costs with the reduced revenue in that business. This is an exceptionally good outcome, particularly considering the increased level of investment in new internal applications and infrastructure to support the entire business and better position us for future growth.

EBITDA increased by 12.4% to $16.3 million and EBIT increased by 13.6% to $15.2 million.

Net profit after tax increased by 11.0% to $10.9 million and earnings per share increased by 11.2% to 70.88 cents. We declared fully franked dividends of 56 cents per share for the full year, up 12.0% on 2009.

## cash flow

Cash flow from operating activities was particularly strong with a total net inflow of $44.9 million, reflecting the significant timing benefit of receipts from customers in advance of payments to suppliers. This timing benefit was greater than in the previous year and consequently the $64.3 million year-end cash balance was inflated by temporary surplus funds.

Cash flow from investing activities was a net outflow of $0.4 million, reflecting payments for property and equipment and software assets.

Cash flow from financing activities was a net outflow of $8.2 million, comprised solely of dividend payments.

## balance sheet

Trade receivables and payables were generally highest at year-end due to the traditional sales peak in the fourth quarter and in June in particular. Trade receivables at 30 June 2010 were $9.9 million lower than the previous year and trade payables were $3.3 million higher due to a larger than normal timing benefit of receipts from customers prior to 30 June in advance of payments to suppliers post 30 June. Consequently the year-end cash balance increased substantially, from $28.0 million to $64.3 million, reflecting the temporary surplus funds arising from this timing benefit combined with a steady increase in the underlying operating cash position.

Our key trade receivables indicator of average days' sales outstanding (DSOS) was 36.5 days, ahead of our 37 day target and the 38.5 days DSOS achieved in the previous year. We are delighted with this result, which demonstrates that our additional investment in strengthening our collection resources has effectively countered the tendency for customers to extend their payment cycles in the difficult current economic environment.

# financial review

Inventory held on behalf of customers increased from $6.1 million to $9.0 million, reflecting a general increase in the volume of product held in our warehouses and configuration centres pending shipment to customers. We have continued to forward order inventory on behalf of customers in some instances to buffer the unpredictability of our vendors' supply chain and to meet delivery expectations of our customers. We believe this strategy is important to maintain our position as a major national product supplier and the forward ordering practice has continued to be monitored closely to minimise the associated working capital impact.

Total net assets increased by 11.8% over the year and total net tangible assets increased by 17.0%. Our balance sheet remains conservative with no debt at year end.

## returns to shareholders

In a difficult investment market our share price performed better than most in the sector finishing the year at $8.01, an increase of 33.5% from the $6.00 price at 30 June 2009.

The increase in dividends to 56 cents per share fully franked, combined with this capital gain, delivered an exceptionally strong total shareholder return of 42.8% for the year.

# board of directors

## Richard Anderson OAM

Non-executive Chairman

Richard joined the board of Data#3 Limited in 1997 and was appointed Chairman in September 2000. He is a member of the board of Namoi Cotton Cooperative Limited and Lindsay Australia Limited, Chairman of GEO Property Group and President of the Guide Dogs for the Blind Association of Queensland. Formerly a partner of PricewaterhouseCoopers, he was the firm's Managing Partner in Queensland and a member of the firm's National Committee. He previously has been a member of the Capital Markets Board of Queensland Treasury Corporation and President of CPA Australia in Queensland.

## John Grant

Managing Director

John joined the company that subsequently became Data#3 in 1982. He was a Director of Data#3 from its foundation in 1984 and then Chief Executive Officer or Managing Director from 1996. From 1980 to 1982, John worked with IBM in sales. John has a degree in Engineering with Honours from the University of Queensland and worked as a civil engineer with the Brisbane City Council from 1970 until 1980. John is Chairman of the Australian Information Industry Association, the ICT industry's peak representative body; chair of the Federal Government's IT Industry Innovation Council whose charter is to provide advice on Australia's innovation system to the Minister for Innovation, Science and Research, Senator Kim Carr; a member of the Queensland Government's Smart State Council whose charter is to provide advice to the Premier Anna Bligh on Queensland's Q2: Tomorrow's Queensland strategy; a member of the Queensland ICT Working Group whose charter is to improve government's ICT governance and procurement; a member of Hewlett Packard's Asia Pacific Partner Advisory Board whose charter is to provide advice and input to HP on its relationship with its distribution and reseller partners in Asia Pacific; and a non-executive Director of Queensland based Sargent Group whose business is four wheel drive hire and truck lease and rental.

## Terry Powell

Non-executive Director

Terry was executive Chairman of Data#3 from its foundation in 1984 and then Managing Director from 1989 to June 1996. Prior to 1984, Terry was Managing Director of Powell Clark & Associates, formed in 1977 with Graham Clark. As part of Data#3 Limited's listing on the Australian Stock Exchange, he resigned as Chairman in October 1997 to allow for the appointment of a non-executive chairman. Terry re-joined the Data#3 Limited board in February 2002. Prior to retirement from Data#3 in 2001, Terry was General Manager of Group Operations with responsibility for Data#3's Year 2000 and eBusiness strategy development. In that position Terry had responsibility for the group's systems and processes, operations and logistics, business improvement and human resources. Terry's career in IT began at IBM's Data Processing Division in 1966. He continued with IBM until 1976, enjoying considerable success in systems engineering and sales roles.

## Ian Johnston

Non-executive Director

Ian joined the board of Data#3 Limited in November 2007 bringing with him extensive experience in treasury, corporate banking and equity capital markets. Following a career of nearly 25 years in the banking industry, Ian joined RBS Morgans Limited in 1988 as Head of Corporate Finance and is now Chairman Corporate Finance and a member of its advisory board. He is a member of the Board of Cardno Limited and a former member of The Rock Building Society Limited.

# senior leadership team

## laurence baynham

Laurence Baynham is the Group General Manager. He is an ICT professional with 26 years industry experience spanning multi-national hardware and software vendors. Laurence joined Data#3 in 1994, has a Bachelor of Business (with honours) from East London University, is a graduate of the INSEAD Business School (Singapore) Strategic Management Academy, member of the Faculty of IT Advisory board for Queensland University of Technology, member of the IBM Business Partner Advisory Council for Asia Pacific, member of the Cisco Advisory board for Asia Pacific, member of the Australian Computer Society since 1992 and a fellow of the Australian Institute of Company Directors.

## brad colledge

Brad is General Manager - Licensing Solutions and holds a degree in Business Management from Queensland University of Technology. He has 21 years experience in the ICT industry and joined Data#3 in 1995. Brad started the Licensing Solutions business and is a Microsoft Certified Professional in Licensing Delivery and Software Asset Management. Brad is a member of the Microsoft World Wide Partner Engagement Board and a member of the Microsoft Australia Partner Advisory Council.

## bruce crouch

Bruce is General Manager - Integrated Solutions and holds a Bachelor of Applied Science degree from Queensland University of Technology. He has 23 years experience in the ICT industry holding roles in systems engineering with IBM and in ERP software sales prior to joining Data#3 in 1995. He started the Enterprise Infrastructure Solutions business with responsibility for its leadership for 9 years prior to taking up his current role.

## mark esler

Mark Esler is General Manager - Product Solutions and was a founding director of Data#3 in 1984. He has been involved in the ICT industry since 1976 having formerly worked at IBM in Australia and has played a key role in many areas within Data#3. Mark is a member of the Australian Computer Society, fellow of the Australian Institute of Company Directors and actively involved in many ICT related forums.

## patrick murphy

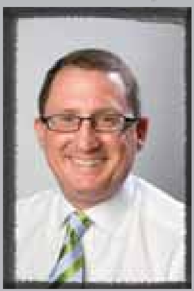
Patrick is General Manager - Managed Services and holds a Bachelor of Business (Commercial Computing and Accounting) degree from Bond University. He has 20 years experience in the ICT industry holding roles spanning from field support to sales and IT management and infrastructure management. He joined Data#3 in 1999 in the outsourcing business and currently sits on the IT advisory board for Griffith University

## lindy macpherson

Lindy is General Manager - People Solutions and Organisational Development & Human Resources. Lindy has held sales and operational management roles for over twenty years with experience working in small business through to large multinational corporations in the leisure, philanthropic, transport, recruitment and ICT sectors. She joined Data#3 in 2000 running the recruitment business in Queensland, expanding this business into NSW and Victoria, before taking over the Organisational Development & Human Resources role in 2003. Lindy is a member of the Australian Human Resources Institute and WIT (Women in IT), holds qualifications in Leisure Management and is currently studying in the field of Social Science, majoring in Management and Leadership.

## michael bowser

Michael is General Manager - Queensland and General Manager - Sales Operations. He joined Data#3 in 1987 and has worked in a number of key roles within the company including technical services, services management, sales, pre-sales management and business management in Queensland and NSW. Michael has been responsible for the creation and development of Data#3's outsourcing solutions, introduced and developed Data#3's networking services and has worked in and managed Data#3's consulting services group. As General Manager - Sales Operations Michael has responsibility for national logistics operations and national sales processes.



## paul crouch

Paul is General Manager - NSW / ACT. He has 27 years experience in the ICT industry including 8 in the UK and 8 in Asia Pacific in roles spanning field and technical support to sales and service management for both technology vendors and channel sales organisations. He joined Data#3 in 2003 progressing through sales leadership roles to his current position.

## christine scammell

Christine is General Manager - Victoria. Christine joined Data#3 in April 2010 and is responsible for driving continued growth across the company's portfolio of IT product and service solutions in Victoria. Christine holds a Bachelor of Business Studies degree and is also a graduate of the Australian Institute of Company Directors. Before joining Data#3 Christine held positions with Oakton, HP Australia and HP New Zealand and was responsible for providing a broad range of IT consulting, outsourcing and support services to customers across Australian and New Zealand. Christine brings with her over 25 years of experience in the IT industry, as well as New Zealand finance and retail sectors, and has a special interest in leadership development and change management.

## cathy ford

Cathy joined Data#3 in 2009 as General Manager - Organisational Excellence. Cathy has a Graduate Diploma in Computing Science from Queensland University of Technology and was awarded a Bachelor of Science degree with first class honours from the University of Queensland. Her previous positions include Chief Operating Officer of McCormick Rankin Cagney (a specialist engineering firm) and Regional Director, Queensland for SMS Management & Technology. Cathy is currently a member of the Australian Information Industry Association and the Australian Institute of Company Directors and is also a director of Queensland Motorways.

## bremner hill

Brem is the Chief Financial Officer and Company Secretary and is responsible for the corporate services functions (finance & accounting, commercial advisory services and corporate marketing). He joined Data#3 in 1991 following positions at Defiance Milling, Royal Bank Leasing (London) and IBM Australia. Brem holds a Bachelor of Business (with distinction) from the University of Southern Queensland, is a member of CPA Australia and a fellow of Chartered Secretaries Australia (CSA). He is a member of the CSA Queensland State Council and chairs the CSA Queensland public companies discussion group.

## mark phillips

Mark is General Manager - Marketing & Alliances and joined Data#3 in 2003. He holds a Bachelor of Business (Business Computing) from RMIT University. With extensive experience in sales, sales management and marketing in organisations such as Access One, OzEmail, Connect.com.au (AAPT) and Microsoft, Mark led the Microsoft Applications Solutions business within Data#3 and in 2006 he was appointed to his current role. He is currently an associate member of the Australian Marketing Institute.

# corporate social responsibility

In 2010, we proudly continued our commitment to our community and the environment through the Data#3 Social Responsibility (DSR) Program. We are dedicated to ethical practices and improving the quality of life of our people, their families and the local and wider communities.

We support local communities with environmentally responsible practices, sporting sponsorships, volunteering and corporate donations to Australian charities. Our employees participate in volunteering opportunities for personal growth, satisfaction and as contributors to the DSR Program. We also work with our clients to support their corporate citizenship goals by helping them to reduce their energy use with green technology solutions.

## our commitment to the community

We continue to be actively involved in supporting community events and charities. Some of the community activities we organised or supported over the past year include:

- Data#3's Charity Golf Day which raised over $25,000 to support the Queensland Institute of Medical Research (QIMR) Bioinformatics Centre aimed at research into the prevention and treatment of cancer
- Data#3 was a proud technology sponsor for the 2009 World Transplant Games held on the Gold Coast. Data#3 supplied critical IT infrastructure such as desktops, laptops, printers and network equipment to support games volunteers to coordinate events and distribute results, as well as enabling athletes to communicate with their families and friends around the world. We also deployed a wireless network to cover the main event venues, and provided on-site and remote managed services to support the games throughout the nine days of competition
- Data#3 matched staff donations dollar for dollar in support of the World's Greatest Shave for the Leukaemia Foundation, in support of patients and families living with leukaemia, lymphoma, myeloma and related blood disorders. It also funds blood cancer research to find better treatments and cures
- Data#3 staff also participated in Movember, helping to fight against prostate cancer and depression in men.

We believe we have a responsibility to ensure that we support the communities that we work and live in, so we support charities close to our employees' hearts and minds. Our 12 Days of Christmas Program was introduced to support charities and community groups across Australia which included The Heart Foundation, Red Cross Blood Bank, Animal Welfare League, The Royal Children's Hospital, World Vision, The Salvation Army, Redkite, The Smith Family, Lions Australia and The Starlight Children's Foundation.

## our commitment to the environment

We regard environmental sustainability as an important aspect of sound business operation and consequently we are very conscious of the need be more efficient in the use of energy, water and the procurement of materials to reduce the direct environmental impact of our operations.

Together with our leading vendor partners we are continually working towards reducing the impact of technology on the environment by reducing energy consumption, decreasing carbon emissions, increasing recycling and eliminating hazardous materials. To further support this initiative we encourage our customers to re-use, recycle and dispose of their IT equipment responsibly by offering an IT equipment disposal service. We also participate in the Government accredited 'GreenPower' initiative.

As a part of our efforts to meet the requirements of ISO 14001 - the International Standards Organisation's standard for environmental management systems - we have developed an Environmental Management System which will be used as the tool for continually reducing the impact of our operations on the environment. A core component of this system is our Environmental Policy Statement which has been ratified by the management team and the board of directors.

We have also implemented a range of recycling programs across all office locations. These include the recycling of white office paper, coloured and newspaper, cardboard, comingled products (including glass, plastics, aluminium, tin) and other packaging products in our warehouses.

## our commitment to our people

We employ over 500 people, of whom 90% are permanent, 3% are part-time and 7% are casual employees. 30% of these people are female and 70% are male. We also engage over 250 contractors who work at our customers' sites through our People Solutions division.

Our commitment to our people is to inspire and support their passion for excellence and desire to do their best every day, help them meet the challenge of work-life balance, empower them to contribute to positive change and reward and celebrate their success as members of the team and as individuals.

Along with our core values this strategy underpins our approach to recruitment and employee benefits and is highlighted in our Learning and Development and Work-Health-Life Balance programs.

## learning and development

In 2010 we continued to increase our investment and commitment to learning and development programs. We enhanced our national instructor-led training program covering all of our major sites and delivered over 3,720 hours of in-house instructor led training and 4,250 hours of on-line learning (a 30% increase on the preceding year) to our people.

Fifty-one of our people (nearly 10% of our permanent employees) were offered the opportunity and support to undertake Certificate or Diploma studies in the areas of Management, Human Resources and Project Management.

We also offer our People Solutions' contractors access to learning and development through our on-line learning facility. These contractors are able to access technical and business courses as well as on-line libraries.

We continue to enhance our graduate development program and our vendor internship and traineeship programs. We also engaged with a number of universities to successfully complete work experience projects within Data#3.

## work-health-life balance

We are committed to helping our people achieve a healthy balance between their work and home life. Over the past year we provided seminars with follow-up reading and planning tools for all of our people. We also initiated a Health and Safety Month where we conducted a range of programs, activities and information sessions highlighting the importance of staying safe at work and home, and encouraging our people to take care of their own health?

## people satisfaction

One of the key benchmarks that we measure each year is the response to the statement "Data#3 is an excellent company to work for and I would recommend working at Data#3 to others in the industry". We received a 92.8% favourable response in 2010 which is the same as our result in 2009 and an outstanding outcome for the business.

# corporate governance statement

Data#3 has a well established corporate governance culture that provides clarity and openness and supports its ongoing focus on delivering sustainable performance and shareholder value.

The board of Data#3 is committed to meeting shareholders' expectations of sound corporate governance practices. This statement outlines Data#3's main corporate governance practices and policies that have been established and reviewed by the board and were in place throughout the 2010 financial year. Further information regarding Data#3's corporate governance policies and practices can be found on our website, www.data3.com.au

## asx principles and recommendations

In developing Data#3's corporate governance framework the board has considered the ASX Corporate Governance Principles and Recommendations (the "Recommendations"). This statement reports against these Recommendations and discloses the extent to which Data#3 has followed the Recommendations during the 2010 financial year.

In summary, Data#3 considers that its corporate governance practices comply with all of the Recommendations except for the following two minor exceptions:

- Recommendation 2.4 - The board should establish a nomination committee.
- Recommendation 8.1 - The board should establish a remuneration committee.

The board considers that the establishment of separate nomination and remuneration committees is not necessary or efficient due to Data#3's size and board structure.

## principle 1: lay solid foundations for management and oversight

The board is accountable to shareholders for the oversight of management of the business and is responsible for Data#3's overall strategy, governance and performance. The board's responsibilities are set out in the board's charter and include:

- Participating in the development of, and subsequently approving, corporate strategy to position the company so that its sustainable value, and shareholders' ability to realise that value, is maximised
- Reviewing and approving business plans, budgets and financial policies
- Reporting to shareholders and the market
- Ensuring policies and processes are in place to assure compliance with applicable regulations and standards
- Ensuring policies and processes are in place to assure all material business risks are taken into account, and approving systems and controls to manage those risks
- Reviewing key internal controls and internal and external audit reports to maintain the integrity of accounting and financial records and reporting
- Monitoring and influencing the culture and reputation of the company
- Managing board composition, director selection and board processes and performance
- Ratifying key executive appointments, transfers and terminations and ensuring executive succession planning
- Reviewing the performance of the Managing Director and the senior management team and their respective delegated levels of authority
- Reviewing and approving remuneration policies and practices generally and determining remuneration packages and other terms of employment for directors (within the maximum amount approved by the shareholders) and senior executives
- Ensuring that the board as a whole has a sufficient understanding of each substantial segment of the business
- Determining the amount, timing and nature of dividends to be paid to shareholders
- Reviewing business results, monitoring budgetary control and corrective actions
- Adopting and overseeing the implementation of corporate governance practices that represent good practice in the company's particular circumstances
- Authorising and monitoring major strategic investments and capital expenditure.

The board's charter also contains a statement of the responsibilities delegated to the Managing Director and other senior executives. The board has delegated authority and powers to the Managing Director as necessary to recommend and implement the strategies approved by the board and to manage the day-to-day operation and administration of the business affairs of Data#3. The Managing Director is the board's principal link to the senior management team. The Managing Director may further delegate within specific policies and delegation limits to members of the senior management team, but remains accountable for all authority delegated to its members. The board ensures that the senior management team is appropriately qualified, experienced and resourced to discharge its responsibilities. The board has in place procedures to assess the performance of the Managing Director and other members of the senior management team.

No new directors were appointed during the year however a new General Manager for Victoria was appointed in April 2010. This executive participated in a comprehensive induction program to gain an understanding of Data#3's financial performance, strategies, operations and risk management processes and the respective rights, duties, responsibilities and roles of the board and fellow senior executives.

The performance of Data#3's senior managers has been assessed this year in accordance with the process adopted by the board against pre-set financial and non-financial goals. The Managing Director's performance is formally assessed annually by the Chairman and that assessment is reviewed by the other non-executive directors. The Managing Director is responsible for evaluating the performance of the Group General Manager, the Chief Financial Officer, and the General Manager – Organisational Development & Human Resources. The Managing Director also reviews the performance of each other member of the senior management team in conjunction with the Group General Manager.

Data#3 has no departures from the Recommendations set out in Principle 1.

## principle 2: structure the board to add value

The board has determined that its optimum composition will:

- Conform with the constitution of Data#3 (being not less than three nor more than twelve in number)
- Have a majority of independent, non-executive directors
- Reflect Data#3's strategic objectives.

The board is composed of four directors, who have an appropriate mix of skills, experience and personal attributes that allow the directors individually, and the board collectively, to discharge their responsibilities effectively and efficiently; to understand the business of Data#3 and the environment within which it operates; and to assess the performance of management in meeting predefined objectives and goals. The membership of the board is set out in the directors' report - see page 33. Details of each individual director's background is set out in the directors' report - see page 33, and the director's profiles - see page 21.

The board recognises that all directors – whether independent or not – should bring independent judgment to bear on the board's decisions. The board has adopted specific principles in relation to an assessment of directors' independence, which it has applied in making this judgment for each director during the year. The Chairman of the board, Mr Anderson, is an independent, non-executive director. Mr Johnson and Mr Powell (and therefore the majority of the board) are also independent non-executive directors.

To facilitate independence, directors have the right, in connection with their duties and responsibilities, to obtain independent professional advice at Data#3's expense. Prior written approval of the Chairman is required, but this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all other directors. This right was neither exercised nor sought to be exercised during the year.

Directors' arrangements with Data#3 in the past have not been material and have therefore not adversely impacted the directors' independent status. Disclosure of related party transactions is set out in note 26 to the financial statements. When a potential or actual conflict of interest or a material personal interest arises in relation to any matter that concerns the affairs of Data#3, it is the board's policy that the director concerned must give the other directors immediate notice of such interest and that the director concerned takes no part in discussions or exercises any influence over other members of the board if a potential conflict of interest exists.

The board has established an audit committee to advise and support the board in carrying out its duties. It is a policy of the board that all members of the audit committee be independent directors. The audit committee has a charter which includes a description of its duties and responsibilities. Membership of and further information on the audit committee is set out below under the heading 'Principal 4: Safeguard integrity in financial reporting'.

Data#3 notes that the Recommendations advocate the establishment of a separate nomination committee. Considering the size of Data#3 and the number of its directors, the board has determined that the establishment of separate nominations committees is not efficient. In relation to nominations, the board is responsible for:

- Assessment of the necessary and desirable competencies of board members
- Review of board succession plans
- Evaluation of the board's performance
- Appointment and re-election of directors.

Nomination matters were considered periodically on the board's meeting agenda during the year. Directors are initially appointed by the board, subject to election by the shareholders at the next Annual General Meeting (AGM). Data#3's constitution specifies that all directors (with the exception of the Managing Director) must retire from office no later than the third AGM following their last election. Where eligible, a director may stand for re-election.

The board meets as often as the directors determine necessary to fulfil its responsibilities and duties - generally on a monthly basis. The board convenes at various Data#3 office locations throughout the year and meets formally on a regular basis with members of the senior management team. The meetings are chaired by the Chairman or, in his absence, his nominee. The Chairman is responsible for ensuring that the governance objectives of the board are pursued and that the conduct of the meetings is efficient and appropriate. The Company Secretary and other executives attend the meetings by invitation when appropriate. Board and committee agenda are structured to reflect their defined responsibilities, to give the board a detailed overview of the performance and significant issues confronting each business unit and Data#3, and to identify major risk elements for review to ensure that assets are properly valued and that protective strategies are in place. Directors receive detailed financial and operational reports from senior management monthly and management is available to discuss the reports with the board.

The number of meetings of the board and audit committee held during the year ended 30 June 2010 and the number of meetings attended by each director is disclosed in the directors' report.

Non-executive directors are expected to make the commitment necessary to prepare for and attend board and committee meetings and associated activities. Other commitments of non-executive directors are considered by the board prior to the director's appointment to the board and are reviewed each year as part of the annual board performance assessment.

The board has established a structured self assessment process to regularly review and evaluate the performance of the board as a whole, the audit committee, and the board's interaction with management.

The efficient operation of the board is assisted by Mr Hill, Company Secretary and Mr Bonner, Joint Company Secretary. Each company secretary is accountable to the board, through the Chairman, for all governance matters.

Apart from the departure to Recommendation 2.4 disclosed above, Data#3 has no other departures from the Recommendations set out in Principle 2.

## principle 3: promote ethical and responsible decision-making

Data#3's board is committed to setting the highest ethical culture and standards for the company. Data#3 has a code of conduct and other relevant policies that set out acceptable practices to guide Data#3's people to act with integrity and objectivity, to observe the highest standards of behaviour and business ethics and to strive at all times to enhance the good reputation and performance of Data#3.

Data#3 has developed an extensive code of conduct which is encapsulated in Data#3's vision and values statements, this corporate governance statement and Data#3's terms and conditions of employment and key policies statement that apply to all employees.

The terms and conditions of employment and key policies statement address:

- The underlying vision and values of the company
- Business ethics and protocol
- Relevant policies and procedures
- Employee entitlements
- Responsibilities and expectations of Data#3 and the employees
- Compliance with relevant legal and stakeholder obligations
- The requirement to conduct all Data#3 business in accordance with applicable laws and in a way that enhances the company's reputation.

During the year Data#3 continued to develop its formal corporate social responsibility program, called the Data#3 Social Responsibility program. For further information see pages 24 and 25.

Data#3 has a share trading policy which sets out the principles by which Data#3 balances the personal investment interests of its people against Data#3's responsibility to ensure that the personal dealings in Data#3's shares are conducted appropriately. The policy also reinforces the directors' and company's statutory obligations to notify the ASX regarding any dealing in Data#3's securities which results in a change in the relevant interests of the director in Data#3's securities. A summary of the policy may be reviewed on Data#3's Investor Relations website.

Data#3 has no departures from the Recommendations set out in Principle 3.

## principle 4: safeguard integrity in financial reporting

The board is responsible for the integrity of Data#3's financial reporting and for ensuring that the financial statements and related notes are completed in accordance with applicable accounting standards and provide a true and fair view of the business of Data#3. The board recognises that the existence of an independent audit committee is an important feature of good corporate governance and has adopted a committee structure that complies with the Recommendations. The responsibilities of the audit committee are set out in its formal charter, which may be reviewed on Data#3's Investor Relations website. The audit committee is comprised of three independent, non-executive directors: Mr Powell (Chairman), Mr Anderson and Mr Johnston, with the Managing Director and the Chief Financial Officer participating by invitation.

Details of each director's background are set out on page 33. Each has the technical, financial and business expertise necessary to consider matters within the charter of the audit committee.

The audit committee met four times during the year, and attendance at these meetings is set out on page 34. The audit committee has, within the scope of its responsibilities, unlimited access to members of the senior management team and access to the external auditor.

Data#3 has no departures from the Recommendations set out in Principle 4.

## principle 5: make timely and balanced disclosure

The board has established written policies and procedures that promote timely and balanced disclosure of all material matters concerning Data#3 (Data#3's continuous disclosure policy) consistent with the ASX Listing Rules. The continuous disclosure policy may be reviewed on Data#3's Investor Relations website.

Under the policy any price-sensitive material for public announcement, such as annual and interim profit announcements, release of financial reports, presentations to investors and analysts and other investor briefings will be lodged with the ASX as soon as practical and before external disclosure elsewhere and then posted on Data#3's website. Data#3 will ensure that such announcements are timely, factual, do not omit material information and are expressed in a clear and objective manner. Shareholders are encouraged to subscribe to email alerts for all company announcements (on Data#3's Investor Relations website).

The board has also developed procedures for safeguarding confidential corporate information to avoid premature disclosure and for responding to market rumours, leaks and inadvertent disclosures.

Data#3 has no departures from the Recommendations set out in Principle 5.

## principle 6: respect the rights of shareholders

Data#3 is committed to providing shareholders with extensive, transparent, accessible and timely communications on company activities, strategy and performance. Data#3 has a communications policy that promotes effective communication with shareholders and encourages their participation at general meetings. A copy of that policy is available on the website. The key platform through which Data#3 seeks to communicate with its shareholders is the website www.data3.com.au which includes a section for investors. A key feature of this website is the ability to subscribe for email alerts for all company announcements. The website is also a repository of all information of interest to shareholders, stored in a user-friendly manner, including all recent company announcements, media briefings, details of company meetings, webcasts, press releases and full and half-yearly financial reports. The website includes a mechanism for shareholders to provide feedback and comments. Shareholders can also raise questions by contacting Data#3 by telephone, facsimile, email or post. Contact details are provided on Data#3's website and in the 'Corporate directory' section of this annual report.

Data#3 usually convenes its AGM in Brisbane during November. Data#3 requests its external auditor to attend each AGM and be available to answer questions about the conduct of the audit and the preparation and contents of the auditor's report. Notices of meetings are accompanied by explanatory notes on the items of business, and together they seek to clearly explain the nature of the business of the meeting. Full copies of notices of meetings are placed on Data#3's website. Shareholders are encouraged to attend the meeting or, if unable to attend, to vote on motions proposed by appointing a proxy. The proxy form included with a notice of meeting seeks to clearly explain how the proxy form is to be completed and submitted. At this time online proxy voting is not available to shareholders however the board will consider providing this facility in the future. Data#3 webcasts the formal addresses made at its AGM and any other general meetings which are held for the benefit of those shareholders unable to attend.

All shareholders receive electronic copies of the company's annual and half-yearly reports, unless they have elected to receive hard copies.

Data#3 has no departures from the Recommendations set out in Principle 6.

## principle 7: recognise and manage risk

The board has established a risk management policy and procedures that promote the identification, assessment, monitoring and managing of risk, and the identification of any material changes to Data#3's risk profile. A copy of that policy may be reviewed on Data#3's Investor Relations website. There are many risks that Data#3 faces in its business operations and in the industry within which it operates. A range of factors, some of which are beyond the reasonable control of Data#3, can influence performance. During the year the board has reviewed the risk management policy and the effectiveness of risk management processes and considers that the policy remains consistent with the risk profile that it has set. The board is satisfied that management has ensured that sound risk management practices are embedded into the operations of the business; that management has continued to review and improve those practices; and that management has reported to the board as to the effectiveness of Data#3's management of its material business risks.

The board receives regular assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act (see Principle 4 above) is founded on a sound system of risk management and internal control which implements policies adopted by the board and that the system is operating effectively in all material respects in relation to financial reporting risks.

Risks faced by Data#3 include operational, environmental, compliance, strategic, reputational, product and service quality, human resources and market-related risks. Specifically, the risk management system takes account of the following material business risks:

- ICT government procurement models and trends
- Attraction and retention of key personnel
- The quality of skill of the senior management team
- Market demand for ICT products and services
- Key vendor channel strategy and customer engagement models
- Identification of ICT industry opportunities and new technology trends
- Effective positioning of Data#3's solutions in the market
- Internal information technology systems and processes
- Delivery of customer solutions within agreed expectations
- Nature of competitor activity.

Data#3 Limited is also a Quality Certified Company to AS/NZS ISO9001:2000, holding NCSI (NATA) Certification Number 6845.

Data#3 has no departures from the Recommendations set out in Principle 7.

## principle 8: remunerate fairly and responsibly

The board has established a remuneration policy which is designed to motivate senior executives to pursue the long-term growth and success of Data#3 and to demonstrate a clear relationship between senior executives' performance and remuneration. The policy allows investors to understand the link between remuneration paid to senior executives and corporate performance. Data#3 notes that the Recommendations advocate the establishment of a separate remuneration committee (Recommendation 8.1). Considering the size of Data#3 and the number of its directors, the board has determined that the establishment of separate remuneration committee is currently not necessary or efficient. In relation to remuneration, the board is responsible for:

- Data#3's remuneration, recruitment, retention and termination policies and procedures for senior executives
- Senior executives' remuneration and incentives
- Superannuation arrangements
- The remuneration for directors.

Remuneration matters were considered periodically on the board's meeting agenda during the year. Data#3's remuneration policies and practices in relation to senior executives, including the amount of remuneration, are as disclosed in Data#3's remuneration report - see pages 35 to 37. Data#3 has clearly demarcated the structure of non-executive directors' remuneration from that of the managing director and senior managers.

Data#3's remuneration policy for non-executive directors and the amount of remuneration paid to non-executive directors is discussed in detail in the remuneration report. Non-executive directors are not granted options nor do they receive bonus payments. There are no termination payments to non-executive directors on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration.

Apart from the departure to Recommendation 8.1 disclosed above, Data#3 has no other departures from the Recommendations set out in Principle 8.

## summary

Data#3 considers that its corporate governance practices comply with all of the Recommendations except for the following two minor exceptions:

- Recommendation 2.4 - The board should establish a nomination committee.
- Recommendation 8.1 - The board should establish a remuneration committee.

The board considers that the establishment of separate nomination and remuneration committees is not necessary or efficient due to Data#3's size and board structure.

# directors' report

Your directors present their report on Data#3 Limited and its subsidiaries (the group) for the year ended 30 June 2010.

## 1. principal activities

The principal activities of the group during the course of the financial year related to the delivery of information technology solutions, which draw on the group's broad range of products and services and its alliances with other industry providers. These activities included software licensing and software asset management; the design, deployment and operation of desktop, network and data centre hardware and software infrastructure; and the provision of contract and permanent recruitment services.

There were no significant changes in the nature of the activities of the group during the year.

## 2. dividends

| | Cents | $'000 |
|---|---|---|
| Final dividend recommended for the year ended 30 June 2010 | 33.0 | 5,081 |
| Dividends paid in the year: | | |
| Interim for the year ended 30 June 2010 | 23.0 | 3,542 |
| Final for the year ended 30 June 2009 | 30.0 | 4,619 |
| | | 8,161 |

## 3. operating and financial review

- Total revenue of the group increased by 13.0% to $599,215,000 with growth in all geographic regions.
- Gross margin in dollar terms increased by 8.9% to $90,045,000.
- The overall gross margin percentage decreased from 15.6% to 15.0%, reflecting the significant growth in product revenues at historically lower relative margins and successful efforts to increase market share in a highly competitive environment.
- Earnings before interest (net) and tax increased by 13.6% to $15,247,000.
- Net profit after tax increased by 11.0% to $10,914,000.
- Earnings per share increased by 11.2% to 70.88 cents.
- Fully franked dividends declared of 56.0 cents per share for the financial year, a 12% increase from last year.
- Very strong net operating cash inflows of $44,906,000.
- Solid financial position with no debt.
- Internal staff costs increased by 9.5% in support of growth and increasing expertise, and operating expenses decreased by 1.4%.
- The internal cost ratio (being internal staff costs and operating expenses as a percentage of gross margin in dollar terms) decreased from 84.3% to 83.4%.

## 4. business strategy

Our vision is to be an exceptional company - one that unites to enable our customers' success through the use of technology; inspires our people to do their best every day; and rewards investors' confidence and support.

To achieve this vision, our focus is on three key areas:
- ***Remarkable people*** – who are inspired and supported in their passion for excellence and to do their best every day; who meet the challenge of work/life balance; who are empowered to contribute to positive change; and who are rewarded and celebrated both as members of the team and as individuals.
- ***Outstanding solutions*** – that embody market-leading expertise in technologies from vendors that are driving the industry globally, and that quickly adapt to changes in the environment.
- ***Organisational excellence*** – embedded processes that continuously review and improve the effectiveness of our business operations to ensure we remain a leader in our industry.

Achieving the objectives we have in each of these areas will see expertise and solutions in technology unite through our solutions framework to enable ***customer success.***

Our customers' success will in turn deliver ***exceptional performance*** with the appropriate rewards to all stakeholders.

## 5. earnings per share

| | 2010 | 2009 |
|---|---|---|
| | Cents | Cents |
| Basic earnings per share | 70.88 | 63.76 |
| Diluted earnings per share | 70.88 | 63.76 |

## 6. significant changes in the state of affairs

There were no significant changes in the state of affairs of the group during the year.

## 7. significant events after the balance date

No matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:
(a) the group's operations in future financial years; or
(b) the results of those operations in future financial years; or
(c) the group's state of affairs in future financial years.

## 8. likely developments and expected results

In the 2011 financial year we expect the tighter economic environment and competitive market conditions to remain in place; however we are targeting continued organic growth in all areas of the business by increasing our market share. We expect the labour market to strengthen with continued competition for the best skills and general upward pressure on remuneration levels. To maintain Data#3's position as an employer of choice, we intend to invest further in developing the expertise of our staff and in the software and systems that support the operations of the business. We are also committed to the relocation and expansion of our Perth and Brisbane offices, and are planning for further expansion of our Sydney office and configuration and integration centre in the 2011 financial year. Consequently we expect an increase in operating expense relative to gross margin compared to the previous year.

We will continue to look for appropriate partnerships and acquisitions to enhance either our geographic scale or our expertise in specific areas and ultimately further improve financial performance. For shareholders we expect to at least maintain the financial performance of 2010 and are looking to continue to deliver dividends that balance the need for working capital and the provision of returns near the top of the sector.

Further information on likely developments in the operations of the group and the expected results of operations has not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the group.

## 9. directors

The following persons were directors of Data#3 Limited during the whole of the financial year and up to the date of this report:

R A Anderson
J E Grant
I J Johnston
W T Powell

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

**R A Anderson, OAM, BCom, FCA, FCPA** (*Chairman, non-executive director)*
Independent non-executive director since 1997 and Chairman since 2000. Formerly a partner with PricewaterhouseCoopers, the firm's Managing Partner in Queensland, and a member of the firm's National Committee. Previously a member of the Capital Markets Board of Queensland Treasury Corporation and President of CPA Australia in Queensland.

During the past three years Mr Anderson has also served as a non-executive director of three other public companies: Namoi Cotton Cooperative Limited (director since 2001), Lindsay Australia Limited (director since 2002) and GEO Property Group following its acquisition of Villa World Limited (a director since 2002 and Chairman since January 2008). President of the Guide Dogs for the Blind Association of Queensland.

*Special responsibilities:*
Chairman of the board.
Member of audit committee.
Chairman of superannuation policy committee (not a committee of the board of directors).

**J E Grant, BEng** (*Managing Director)*
Director of the company from its foundation in 1984; Chief Executive Officer or Managing Director from 1996; extensive experience in the IT industry; Chairman of the Australian Information Industry Association, the ICT industry's peak representative body; chair of the Federal Government's IT Industry Innovation Council; a member of the Queensland Government's Employment Taskforce; a member of the Queensland ICT Working Group; and a member of Hewlett Packard's Asia Pacific Partner Advisory Board.

Mr Grant is also a non-executive director of Sargent Group.

**I J Johnston, DipCM, GradDip App Fin & Inv, ASIA, ACIS, FAICD** (*non-executive director)*
Non-executive director since November 2007. Currently Chairman Corporate Finance at RBS Morgans and a member of its advisory board. Extensive experience in the banking and stockbroking industries including roles in treasury, corporate banking and equity capital markets.

During the past three years Mr Johnston has also served as a non-executive director of three other public companies: Cardno Limited (director since 2004), Symbiosis Group Limited (director from 2004 to 2008) and The Rock Building Society Limited (director from 2006 to 2009).

*Special responsibilities:*
Member of audit committee.

# directors' report (continued)

## 9. directors (continued)

**W T Powell, BEcon** (*non-executive director)*
Non-executive director since 2002. Executive Chairman of the company from its foundation in 1984 and then Managing Director from 1989 to 1996. Prior to 1984 had extensive experience in the IT industry and was the Managing Director of Powell Clark and Associates, formed in 1977. Re-joined the board of Data#3 Limited in 2002.

*Special responsibilities:*
Chairman of audit committee.

**Interests in shares**

As at the date of this report, the interests of the directors in the shares of Data#3 Limited were:

| | Number of ordinary shares |
|---|---|
| R A Anderson | 60,000 |
| J E Grant | 763,520 |
| I J Johnston | 60,000 |
| W T Powell | 410,000 |

**Meetings of directors**

The number of meetings of the company's board of directors (including meetings of the audit committee) held during the year, and the numbers of meetings attended by each director were:

| Name | Full meetings of directors | | Meetings of audit committee | |
|---|---|---|---|---|
| | Meetings attended | Meetings held * | Meetings attended | Meetings held * |
| R A Anderson | 16 | 16 | 4 | 4 |
| J E Grant | 16 | 16 | ** | ** |
| I J Johnston | 15 | 16 | 4 | 4 |
| W T Powell | 16 | 16 | 4 | 4 |

* *Number of meetings held during the time the director held office or was a member of the committee during the year.*
** *Not a member of the committee during the year.*

## 10. company secretary

Mr B I Hill, BBus, was appointed to the position of Company Secretary in 1997. He has served as the Financial Controller or Chief Financial Officer of the company since 1992 and is a member of CPA Australia and a fellow of Chartered Secretaries Australia.

Mr T W Bonner, LLB, BComm, ACIS, was appointed to the position of Joint Company Secretary in November 2007. He has served as the Legal Counsel of the company since 2005 and is a member of the Queensland Law Society and Chartered Secretaries Australia.

## 11. remuneration report

All information in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001. The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information

**A Principles used to determine the nature and amount of remuneration**
The board addresses remuneration policies and practices generally, and determines remuneration packages and other terms of employment for senior executives. Executive remuneration and other terms of employment are reviewed annually by the board having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the group's operations, achieving the group's strategic objectives, and increasing shareholder wealth.

**Executives**
The executive pay and reward framework has three components:

- Base pay and benefits
- Performance-related bonuses
- Other remuneration such as superannuation.

The combination of these comprises the executive's remuneration.

*Base pay*
Base pay is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion. There are no guaranteed base pay increases included in any senior executives' contracts.

*Performance-related bonuses*
Performance-related cash bonus entitlements are linked to the achievement of financial and non-financial objectives which are relevant to meeting the company's business objectives. In 2010 the proportion of the planned total executive remuneration for key management personnel that was performance-related was 34% (2009: 35%).

A major part of the bonus entitlement is determined by the actual performance against planned group and divisional profit targets relevant to each individual. Using a profit target ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan. In 2010 the planned profit-related component represented 76% of the total executive bonuses (2009: 75%). The balance of the executive bonus entitlement is determined by performance against agreed non-financial objectives relevant to each individual.

The executives' cash bonus entitlements are assessed and paid either quarterly or six-monthly, based on the actual performance against the relevant full-year profit and key performance indicator targets. The board, together with certain senior managers, is responsible for assessing whether an individual's targets have been met, and profit targets and key performance indicator targets are reviewed and reset annually.

**Non-executive directors**
Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The board determines remuneration of non-executive directors within the maximum amount approved by the shareholders from time to time. This maximum currently stands at $350,000 per annum in total for salary and fees, to be divided among the non-executive directors in such a proportion and manner as they agree. Non-executive directors are paid a fixed remuneration, comprising base fees and superannuation. Non-executive directors do not receive bonus payments or share options, and are not provided with retirement benefits other than statutory superannuation. The board is comprised of three non-executive directors and one executive director. The board undertakes an annual review of its performance and the performance of the board committee against goals set at the start of the year.

**B Details of remuneration**
Compensation paid, payable, or provided by the group or on behalf of the group, to key management personnel is set out below. Key management personnel include all directors of the company and certain executives who, in the opinion of the board and managing director, have authority and responsibility for planning, directing and controlling the activities of the group directly or indirectly. Comparative information is not shown for individuals who were not considered to be key management personnel in the previous year. The following also includes the five most highly remunerated executives of the group and of the company.

# directors' report (continued)

## 11. remuneration report (continued)

| | | Short-term | | | Long-term | Post-employment | Other benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Cash salary and fees $ | Cash bonus $ | Non-monetary benefits $ | Long service leave $ | Super-annuation $ | Termin-ation $ | Total $ | % perfor-mance related |
| **Non-executive directors** | | | | | | | | | |
| Anderson, R. | 2010 | 90,000 | - | - | - | 8,100 | - | 98,100 | - |
| Chairman | 2009 | 90,000 | - | - | - | 8,100 | - | 98,100 | - |
| Johnston, I. | 2010 | 55,000 | - | - | - | 4,950 | - | 59,950 | - |
| | 2009 | 55,000 | - | - | - | 4,950 | - | 59,950 | - |
| Powell, W.T. | 2010 | 65,000 | - | - | - | 5,850 | - | 70,850 | - |
| | 2009 | 65,000 | - | - | - | 5,850 | - | 70,850 | - |
| **Subtotals - non-executive directors** | 2010 | 210,000 | - | - | - | 18,900 | - | 228,900 | - |
| | 2009 | 210,000 | - | - | - | 18,900 | - | 228,900 | - |
| **Executive director** | | | | | | | | | |
| Grant, J. * | 2010 | 397,384 | 138,055 | - | 6,623 | 14,461 | - | 556,523 | 24.8 |
| Managing Director | 2009 | 397,384 | 120,149 | - | 6,436 | 13,745 | - | 537,714 | 22.3 |
| **Other key management personnel** | | | | | | | | | |
| Baynham, L. | 2010 | 230,122 | 198,400 | - | 3,835 | 14,461 | - | 446,818 | 44.4 |
| Group General Manager | 2009 | 230,122 | 154,799 | - | 6,324 | 13,745 | - | 404,990 | 38.2 |
| Colledge, B. – General Manager | 2010 | 192,255 | 206,353 | - | 3,204 | 14,461 | - | 416,273 | 49.6 |
| Licensing Solutions | 2009 | 192,255 | 154,221 | - | 7,506 | 13,745 | - | 367,727 | 41.9 |
| Crouch, B. – General Manager | 2010 | 177,255 | 182,234 | - | 2,954 | 14,461 | - | 376,904 | 48.4 |
| Integrated Solutions | 2009 | 177,255 | 136,920 | - | 4,091 | 13,745 | - | 332,011 | 41.2 |
| Esler, M. * – General Manager | 2010 | 166,255 | 168,058 | - | 2,771 | 14,461 | - | 351,545 | 47.8 |
| Product Solutions | 2009 | 166,255 | 120,871 | - | 2,389 | 13,745 | - | 303,260 | 39.9 |
| Hill, B. * – Chief Financial | 2010 | 204,055 | 67,833 | - | 3,401 | 14,461 | - | 289,750 | 23.4 |
| Officer and Company Secretary | 2009 | 204,055 | 57,671 | - | 7,445 | 13,745 | - | 282,916 | 20.4 |
| MacPherson, L. * – General Manager People Solutions and | 2010 | 148,145 | 105,044 | - | 2,469 | 14,461 | - | 270,119 | 38.9 |
| Gen. Mgr. Org. Dev. & HR | 2009 | 148,145 | 67,278 | - | 3,984 | 13,745 | - | 233,152 | 28.9 |
| Murphy, P. – General Manager | 2010 | 205,418 | 126,238 | 1,226 | 3,424 | 14,461 | - | 350,767 | 36.0 |
| Managed Services | 2009 | 176,255 | 139,613 | - | 3,615 | 13,745 | - | 333,228 | 41.9 |
| **Totals – key management personnel** | 2010 | 1,930,889 | 1,192,215 | 1,226 | 28,681 | 134,588 | - | 3,287,599 | 36.3 |
| | 2009 | 1,901,726 | 951,522 | - | 41,790 | 128,860 | - | 3,023,898 | 31.5 |

* Denotes those executives who were employed by the parent entity for the year ended 30 June 2010 and represent the four most highly remunerated officers of the parent entity. There were no other executives of the parent entity for the year ended 30 June 2010 (2009: nil).

Remuneration disclosures in the 2009 financial year included information for all executives who were part of the senior leadership team. The board has reassessed the executive group and has reduced the disclosures in the above table strictly to those individuals with the authority and responsibility for planning, directing and controlling the activities of the group directly or indirectly.

No director or executive received compensation in the form of share-based payments during the year ended 30 June 2010 (2009: nil).

## 11. remuneration report (continued)

**C Service agreements**

Terms of employment for the managing director and other key management personnel are formalised under rolling contracts. The contracts state that base salary and performance-related bonuses will be agreed annually, which occurs at the commencement of each financial year. The company may terminate the contracts without notice for gross misconduct; otherwise, either party may terminate the contract early with the agreed notice period, subject to termination payments as detailed below. For all key management personnel, except those listed below, termination notice of one month is required and no termination benefit is contractually payable. Other major provisions of the contracts relating to remuneration of the managing director and certain other key management personnel are as follows:

*J Grant (Managing Director)*

- Termination notice of six months is required.
- Payment of a termination benefit on early termination by the company, other than for gross misconduct, of twelve months of his packaged salary together with an additional amount representing the performance-related bonus earned up to the date of termination. If at the annual renewal date the company chooses not to continue the agreement, the company must provide six months notice and Mr Grant will be entitled to his packaged salary and performance bonus calculated up to the date of his termination.

*L Baynham, B Hill and L MacPherson*

- Termination notice of three months is required.
- Payment of a termination benefit on early termination by the company, other than for gross misconduct, of six months of the packaged salary including performance-related bonuses. A termination benefit is provided for these individuals as these positions are considered most likely to be subject to early termination in the event of a significant business combination.

**D Share-based compensation**

Share-based compensation may be granted to directors and key management personnel under the Data#3 Limited Employee Share Ownership Plan, the Data#3 Limited Deferred Share and Incentive Plan, and the Data#3 Limited Employee Option Plan.

No shares, rights, or options were granted to directors or key management personnel during the year ended 30 June 2010 (2009: nil), no rights or options vested or lapsed during the year (2009: nil), and no rights or options were exercised during the year (2009: nil).

**E Additional information**

*Relationship between remuneration and company performance*

The overall level of executive reward takes into account the performance of the group over a number of years, with greater emphasis given to improving performance over the prior year. Since 2005, the group's net profit has grown at an average rate of 22.8% per annum, the average executive remuneration has increased by an average rate of 8.0% per annum, and shareholder wealth grew at an average rate of 18.0% per annum.

*Cash bonuses*

For each cash bonus included in the previous table in Section B, the percentage of the planned bonus that was actually earned in the financial year, and the percentage that was forfeited because the person did not meet the relevant profit or other performance-related criteria, are set out below.

| Name | Earned % | Forfeited % |
|---|---|---|
| Baynham, L. | 100% | - |
| Colledge, B. | 100% | - |
| Crouch, B. | 100% | - |
| Esler, M. | 100% | - |
| Grant, J. | 100% | - |
| Hill, B. | 100% | - |
| MacPherson, L. | 100% | - |
| Murphy, P. | 100% | - |

## 12. shares under option

No unissued ordinary shares of Data#3 Limited are under option at the date of this report. No share options were granted or exercised during the financial year. Furthermore, there has been no movement in shares under option since year end up to the date of this report.

## 13. indemnification and insurance of directors and officers

During the financial year, Data#3 Limited paid a premium of $38,605 to insure the directors and members of the executive management team of the company and the group against any liability incurred by them in their capacity as officers, unless the liability arises out of conduct involving a lack of good faith. The executive officers of the group are also indemnified against any liability for costs and expenses incurred in defending civil or criminal proceedings involving them as such officers if judgement is given in their favour or if they are acquitted or granted relief.

## 14. environmental regulation and performance

The group is not subject to any particular and significant environmental regulations.

## 15. rounding

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar, in accordance with that class order.

## 16. auditor independence and non-audit services

Johnston Rorke continues in office in accordance with section 327 of the Corporations Act 2001. During the year the following fees were paid or payable to the auditor for non-audit services:

| | Consolidated | |
|---|---|---|
| | **2010 $** | **2009 $** |
| **Non-audit services** | | |
| Acquisition due diligence services | 8,000 | - |
| Tax compliance services | 5,600 | 9,000 |
| | 13,600 | 9,000 |

**Non-audit services**
The company employs Johnston Rorke on assignments additional to its statutory duties where the auditor's expertise and experience with the company and/or the group are important.

The board of directors has considered the position, and in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor (refer above) did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 39.

This report is made in accordance with a resolution of the directors.

**R A Anderson**
Director

Brisbane
23 August 2010

JOHNSTON RORKE
CHARTERED ACCOUNTANTS

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The Directors
Data#3 Limited
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80-88 Jephson Street
TOOWONG QLD 4066

**Auditor's Independence Declaration**

As lead auditor for the audit of the financial report of Data#3 Limited for the financial year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

(i) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Data#3 Limited and the entities it controlled during the period.

**JOHNSTON RORKE**
Chartered Accountants

J. Evans

**J J Evans**
Partner
Johnston Rorke

Brisbane
23 August 2010

Liability limited by a scheme approved under Professional Standards Legislation.

# statement of comprehensive income

## for the year ended 30 june 2010

| | | Consolidated | |
|---|---|---|---|
| | | 2010 | 2009 |
| | Notes | $'000 | $'000 |
| **Revenue** | | | |
| Sale of goods | 2 | 513,585 | 450,049 |
| Services | 2 | 85,015 | 79,616 |
| Other | 5 | 615 | 816 |
| | | 599,215 | 530,481 |
| **Other income** | 6 | 194 | 353 |
| **Expenses** | | | |
| Changes in inventories of finished goods | | 2,897 | (692) |
| Purchase of goods | | (469,345) | (403,766) |
| Employee and contractor costs directly on-charged (cost of sales on services) | | (30,651) | (35,860) |
| Other cost of sales on services | | (11,457) | (6,636) |
| Other employee and contractor costs | | (63,471) | (57,975) |
| Telecommunications | | (1,272) | (1,224) |
| Software maintenance and licensing | | (332) | (183) |
| Rent | 7 | (3,908) | (3,828) |
| Travel | | (1,716) | (1,377) |
| Professional fees | | (628) | (656) |
| Depreciation and amortisation | 7 | (1,015) | (1,050) |
| Finance costs | 7 | (69) | (82) |
| Other | | (2,649) | (3,352) |
| | | (583,616) | (516,681) |
| **Profit before income tax expense** | | 15,793 | 14,153 |
| Income tax expense | 8 | (4,879) | (4,321) |
| Net profit | | 10,914 | 9,832 |
| Other comprehensive income, net of tax | | - | - |
| **Total comprehensive income** | | 10,914 | 9,832 |
| Profit is attributable to: | | | |
| Owners of Data#3 Limited | | 10,914 | 9,832 |
| Non-controlling interests | | - | - |
| | | 10,914 | 9,832 |
| Total comprehensive income is attributable to: | | | |
| Owners of Data#3 Limited | | 10,914 | 9,832 |
| Non-controlling interests | | - | - |
| | | 10,914 | 9,832 |
| | | **Cents** | **Cents** |
| Basic earnings per share | 9 | 70.88 | 63.76 |
| Diluted earnings per share | 9 | 70.88 | 63.76 |

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

# balance sheet

## as at 30 june 2010

| | Notes | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 11 | 64,335 | 27,957 |
| Trade and other receivables | 12 | 86,353 | 96,206 |
| Inventories | 13 | 9,006 | 6,116 |
| Other | 14 | 1,346 | 943 |
| Total current assets | | 161,040 | 131,222 |
| **Non-current assets** | | | |
| Property and equipment | 15 | 773 | 1,310 |
| Deferred tax assets | 8 | 1,532 | 1,242 |
| Intangible assets | 16 | 5,138 | 5,429 |
| Total non-current assets | | 7,443 | 7,981 |
| **Total assets** | | 168,483 | 139,203 |
| **Current liabilities** | | | |
| Trade and other payables | 17 | 109,986 | 106,641 |
| Current tax liabilities | | 3,285 | 654 |
| Provisions | 18 | 849 | 1,060 |
| Other | 19 | 26,547 | 6,652 |
| Total current liabilities | | 140,667 | 115,007 |
| **Non-current liabilities** | | | |
| Other payables | 17 | - | 194 |
| Provisions | 18 | 1,179 | 669 |
| Other | 19 | 551 | - |
| Total non-current liabilities | | 1,730 | 863 |
| **Total liabilities** | | 142,397 | 115,870 |
| **Net assets** | | 26,086 | 23,333 |
| **Equity** | | | |
| Contributed equity | 21 | 8,278 | 8,278 |
| Retained earnings | | 17,808 | 15,055 |
| **Total equity** | | 26,086 | 23,333 |

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

# statement of changes in equity

## for the year ended 30 june 2010

| | Number of Ordinary Shares | Contributed Equity | Retained Earnings | Total Shareholders' Equity |
|---|---|---|---|---|
| | '000 | $'000 | $'000 | $'000 |
| **Consolidated** | | | | |
| **Balance at 1 July 2008** | 15,478 | 8,694 | 12,632 | 21,326 |
| Net profit | - | - | 9,832 | 9,832 |
| Other comprehensive income, net of tax | - | - | - | - |
| **Total comprehensive income** | - | - | 9,832 | 9,832 |
| Repurchase of ordinary shares | (81) | (416) | - | (416) |
| Payment of dividends | - | - | (7,409) | (7,409) |
| **Balance at 30 June 2009** | 15,397 | 8,278 | 15,055 | 23,333 |
| Net profit | - | - | 10,914 | 10,914 |
| Other comprehensive income, net of tax | - | - | - | - |
| **Total comprehensive income** | - | - | 10,914 | 10,914 |
| Payment of dividends | - | - | (8,161) | (8,161) |
| **Balance at 30 June 2010** | 15,397 | 8,278 | 17,808 | 26,086 |

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

# cash flow statement

## for the year ended 30 june 2010

| | Notes | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit after income tax | | 10,914 | 9,832 |
| Depreciation and amortisation | | 1,015 | 1,050 |
| Impairment of intangible assets | | 178 | - |
| Impairment of inventory | | 7 | - |
| Bad and doubtful debts | | 166 | 278 |
| Loss on disposal of property and equipment | | 2 | - |
| Reversal of contingent consideration payable | | (194) | - |
| Reduction of allowance for impairment | | - | (110) |
| Other | | 14 | 34 |
| Change in operating assets and liabilities, net of effects from purchase and sale of businesses | | | |
| (Increase) / decrease in trade receivables | | 11,770 | (26,175) |
| (Increase) / decrease in inventories | | (2,897) | 485 |
| (Increase) in other operating assets | | (2,486) | (1,525) |
| (Increase) in net deferred tax assets | | (290) | (18) |
| Increase in trade payables | | 4,223 | 29,102 |
| Increase in unearned income | | 19,935 | 940 |
| Increase / (decrease) in other operating liabilities | | (279) | 6,146 |
| Increase / (decrease) in current tax liabilities | | 2,631 | (769) |
| Increase in provision for employee benefits | | 197 | 280 |
| Net cash inflow from operating activities | | 44,906 | 19,550 |
| **Cash flows from investing activities** | | | |
| Payments for property and equipment | 15 | (249) | (461) |
| Payments for software assets | 16 | (118) | (322) |
| Other | | - | 1 |
| Net cash outflow from investing activities | | (367) | (782) |
| **Cash flows from financing activities** | | | |
| Payment of dividends | 10 | (8,161) | (7,409) |
| Repurchase of ordinary shares | 21 | - | (416) |
| Net cash outflow from financing activities | | (8,161) | (7,825) |
| **Net increase in cash and cash equivalents held** | | 36,378 | 10,943 |
| Cash and cash equivalents, beginning of financial year | | 27,957 | 17,014 |
| **Cash and cash equivalents, end of financial year** | 11 | 64,335 | 27,957 |
| Financing arrangements | 4 | | |

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

# notes to the financial statements

## note 1. summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented and have been applied consistently by all entities in the group, unless otherwise stated.

**(a) Basis of preparation of financial report**
The financial statements include the consolidated entity comprising Data#3 Limited and its subsidiaries. This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. These financial statements have also been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000), unless otherwise stated, under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the class order applies.

*Compliance with IFRS*
This financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

*Early adoption of standards*
The group has elected to apply AASB 2009-5 *Further Amendments to Australian Accounting Standards Arising from the Annual Improvements Project*, as it applies to AASB 8 *Operating Segments* only, to the annual reporting period beginning 1 July 2009. This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. As a result of the early adoption, the group is not required to allocate assets to its reportable segments (refer to note 2). There was no other impact on the current or prior year financial statements.

*Financial statement presentation*
The group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented to conform with the new presentation requirements.

**(b) Principles of consolidation**
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Data#3 Limited ("company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Data#3 Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the group and are deconsolidated from the date on which control is transferred out of the group. Investments in subsidiaries are accounted for at cost in the financial statements of Data#3 Limited.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet, respectively.

**(c) Foreign currency translation**
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The group's functional and presentation currency is Australian dollars.

Foreign currency transactions are translated to Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. As at balance sheet date the group has not entered any hedge transactions, as the risk to the group from foreign-denominated transactions is not material.

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

*(i) Sale of goods*
Revenue from the sale of goods is recognised when the goods are shipped to a customer's specified location pursuant to a sales order, the risks of obsolescence and loss have passed to the customer, and the customer has either accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

## note 1. summary of significant accounting policies (continued)

**(d) Revenue recognition (continued)**

*(ii) Rendering of services*
Revenue from services is recognised in accordance with the percentage of completion method. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where it is probable that a loss will arise from a fixed price service contract, the excess of total costs over revenue is recognised as an expense immediately.

*(iii) Interest income*
Revenue is recognised as interest accrues using the effective interest method.

*(iv) Dividends*
Dividend income is recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence (refer to note 1(k)).

*Change in accounting policy*
The group has changed its accounting policy for dividends paid out of pre-acquisition profits from 1 July 2009 when the revised AASB 127 *Consolidated and Separate Financial Statements* became operative. Previously, dividends paid out of pre-acquisition profits were deducted from the cost of the investment. In accordance with the transitional provisions, the new accounting policy is applied prospectively. Therefore no adjustment was required to any of the amounts previously recognised in the financial statements.

**(e) Income tax**
Income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences arising from the initial recognition of an asset or a liability, except that no deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction (other than a business combination) that did not affect either accounting or taxable profit or loss at the time of the transaction.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax base of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. Deferred tax assets and deferred tax liabilities are offset only if they relate to the same taxable entity and the same taxation authority, and a legally enforceable right exists to set off current tax assets against current tax liabilities.

*Tax consolidation legislation*
Data#3 Limited and its wholly-owned Australian subsidiaries are part of a tax-consolidated group under Australian taxation law. Data#3 Limited and the controlled entities in the tax-consolidated group, continue to account for their own current and deferred tax amounts. These amounts are measured as if each entity in the tax-consolidated group continues to be a stand-alone taxpayer in its own right. Data#3 Limited, as the head entity, immediately assumes current tax liabilities or assets and the deferred tax assets arising from unused tax losses and unused tax credits from controlled entities in the tax consolidated group, in addition to its own current and deferred tax amounts. The entities have also entered into tax sharing and funding agreements. Refer to note 8.

**(f) Leases**
Leases of property and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Lease payments are allocated between the liability and the interest expense. The leased asset is depreciated on a straight-line basis over the shorter of the asset's useful life or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments, net of any incentives received from the lessor, are charged to expense on a straight-line basis over the period of the lease. Where the group is required to return the premises to their original condition on cessation of the lease, a provision for lease remediation is recorded for the present value of the estimated liability.

**(g) Cash and cash equivalents**
Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, and other short-term, highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For purposes of the cash flow statement, cash includes cash and cash equivalents, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## note 1. summary of significant accounting policies (continued)

**(h) Trade receivables**
Trade receivables, which are non-interest bearing and generally due for settlement within 30 days, are recognised initially at fair value and subsequently measured at amortised cost, less an allowance for impairment. Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, default payments or debts more than 120 days overdue where there are not extenuating circumstances are considered objective evidence of impairment. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to other income in the statement of comprehensive income.

**(i) Inventories**
Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on a specific identification basis and are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**(j) Business combinations**
The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Consideration for an acquisition is measured as the fair value of the assets given up, liabilities incurred and the equity interests issued by the group. Consideration also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Costs associated with the acquisition are charged to expense as incurred. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange, unless it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The excess of the consideration of the acquisition, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(o)). If those amounts are less than the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in profit or loss, but only after a reassessment of the identification and measurement of the net assets acquired.

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

*Change in accounting policy*
A revised AASB 3 *Business Combinations* became operative on a prospective basis from 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, the following changes were significant:

All purchase consideration is now recorded at fair value at acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of the acquisition.

Acquisition-related costs are charged to expense as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an aquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed, there will no longer be any adjustment to goodwill. As a result, the recognition of the deferred tax asset will increase the group's net profit after tax.

As there were no business combinations since 1 July 2009, there is no impact on the group.

**(k) Impairment of assets**
Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit or CGU). For the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

## note 1. summary of significant accounting policies (continued)

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

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

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

**(m) Investments and other financial assets**
The group's investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as follows: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and reevaluates this designation at each reporting date where appropriate. As at balance sheet date the group has no financial assets at fair value through profit or loss or held-to-maturity investments and has not entered any significant derivative contracts.

*Recognition and derecognition*
Purchases and sales of investments are recognised on trade date. Investments are initially recognised at fair value plus, for all financial assets not carried at fair value through profit and loss, transaction costs; transaction costs on financial assets carried at fair value through profit and loss are charged directly to expense in the statement of comprehensive income. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, and for unlisted securities, the group establishes fair value using other valuation techniques such as reference to the fair values of recent arms' length transactions involving the same or similar instruments, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

*Subsequent measurement*
Financial assets at fair value through profit and loss and available-for-sale financial assets are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised as other comprehensive income until the investment is sold, collected or otherwise disposed, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in profit or loss. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the security is impaired. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period of maturity. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

**(n) Property and equipment**
Property and equipment is stated at cost, less accumulated depreciation and amortisation. Depreciation of equipment is computed using the straight-line method to allocate cost net of residual values over the estimated useful lives of the assets, being three to 20 years. Amortisation of leasehold improvements is computed using the straight-line method over two to ten years.

Upon impairment, an asset's carrying amount is written down immediately to its recoverable amount (refer to note 1(k)).

**(o) Goodwill and purchased intangible assets**
Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequently goodwill is carried at cost less any accumulated impairment losses. Goodwill is tested for impairment on an annual basis, and between annual tests in certain circumstances, and written down when impaired.

Purchased intangible assets other than goodwill are amortised over their useful lives unless these lives are determined to be indefinite. Purchased intangibles are carried at cost less accumulated amortisation and impairment losses. Amortisation is computed using the straight-line method over the estimated useful lives of the respective assets, generally two to five years.

**(p) Trade and other payables**
These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year which are unpaid. The amounts are generally unsecured and are usually paid within 30 to 60 days of recognition.

## note 1. summary of significant accounting policies (continued)

**(q) Financial guarantee contracts**
Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less any cumulative amortisation.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

**(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. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the balance sheet date. The increase in the provision due to the passage of time is recognised as interest expense.

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

**(s) Employee benefits**
*Wages, salaries, annual leave and sick leave*
Liabilities for wages, salaries, including non-monetary benefits, and annual 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, and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave, which are non-vesting, are recognised when the leave is taken and measured at the rates paid or payable.

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

*Post-employment benefits*
Contributions are made by the group to defined contribution superannuation funds. Contributions are charged to expense as they are incurred.

*Bonus plans*
A liability for employee benefits in the form of bonus plans is recognised in other payables when the group has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

*Share-based compensation benefits*
Share-based compensation benefits may be provided to employees via the Data#3 Limited Deferred Share and Incentive Plan, an employee option plan, and an employee share ownership plan (ESOP).

The fair value of the incentives and options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the incentives or options. Fair value is determined using an appropriate option pricing model and takes into account factors such as exercise price, the term of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

At each balance sheet date, the group revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The market value of shares issued under the ESOP is recognised in the balance sheet as share capital, with a corresponding charge to the statement of comprehensive income for employee benefits expense.

**(t) Contributed equity**
Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**(u) Earnings per share**
Basic earnings per share is computed as profit attributable to owners of the company, adjusted to exclude costs of servicing equity (other than ordinary shares), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## note 1. summary of significant accounting policies (continued)

**(v) Segment reporting**
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

*Change in accounting policy*
The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the CODM. As goodwill is allocated to groups of cash-generating units on a segment level, the change in reportable segments has required a reallocation of goodwill. This has not resulted in any new impairment of goodwill. There has been no other impact on the measurement of the company's assets and liabilities. Comparatives for 2009 have been restated.

**(w) Comparatives**
Comparative figures have been reclassified where necessary to ensure consistency with current year presentation.

**(x) Corporate information**
The financial report was authorised for issue in accordance with a resolution of the directors on 23 August 2010. Data#3 Limited is a public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 2
Data#3 Centre
80 Jephson Street
TOOWONG QLD 4066

**(y) Accounting standards not yet effective**
Relevant Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ended 30 June 2010, are as follows:

| Standard/Interpretation | Application date of standard* | Application date for the group* |
|---|---|---|
| **AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (excluding AASB 8 *Operating Segments* amendments, which have been early adopted – refer to note 1(a))**<br>These amendments affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments are not expected to have a significant impact on the financial statements. | 1 January 2010 | 1 July 2010 |
| **AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]***<br>This amendment clarifies the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services regardless of which entity in the group settles the transaction, and regardless of whether the transaction is settled in shares or cash. The group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the financial statements. | 1 January 2010 | 1 July 2010 |
| **AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]***<br>Under this amendment, provided certain conditions are met, rights issues that are denominated in a currency other than the functional currency of the issuer must be classified as equity regardless of the currency in which the exercise price is denominated. Previously these issues had to be accounted for as derivative liabilities. This amendment must be applied retrospectively. The group will apply the amended standard from 1 July 2010. There will be no impact on the group's or parent entity's financial statements as there have been no rights issues. | 1 February 2010 | 1 July 2010 |
| **AASB 9 *Financial Instruments and* AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9***<br>AASB 9 addresses the classification and measurement of financial assets. The directors anticipate this standard will have no material impact on the financial statements, but the full impact has not yet been assessed. AASB 9 is available for early adoption; the group has not yet decided when it will adopt it. | 1 January 2013 | 1 July 2013 |
| **Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards***<br>This amendment affects government-related entities and also clarifies and simplifies the definition of a related party. The group will apply the amended standard retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the financial statements. | 1 January 2011 | 1 July 2011 |

# notes to the financial statements (continued)

## note 1. summary of significant accounting policies (continued)

**(y) Accounting standards not yet effective (continued)**

| Standard/Interpretation | Application date of standard* | Application date for the group* |
|---|---|---|
| **Interpretation 19 *Extinguishing financial liabilities with equity instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19***<br>This interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the financial statements since the group has not entered into any debt for equity swaps. | 1 July 2010 | 1 July 2010 |
| **AASB 2010-3 *Amendments to Australian Accounting Standards Arising from the Annual Improvements Project***<br>This amendment introduces various changes to IFRSs. The directors have not yet assessed the impact of the amendments, if any. | 1 Jul 2010 | 1 Jul 2010 |
| **AASB 2010-4 *Amendments to Australian Accounting Standards Arising from the Annual Improvements Project***<br>This amendment introduces various changes to IFRSs. The directors have not yet assessed the impact of the amendments, if any. | 1 Jan 2011 | 1 Jul 2011 |

* Application date is for annual reporting periods beginning on or after the date shown in the above table.

## note 2. segment information

The group's business is conducted primarily in Australia. The group's management makes financial decisions and allocates resources based on the information it receives from its internal management system. Sales are attributed to an operating segment based on the type of product or service provided to the customer. Revenue from customers domiciled in Australia comprised 99% of external sales for the year ended 30 June 2010 (2009: 99%).

Segment information is prepared in conformity with the accounting policies of the group as disclosed in note 1 and Accounting Standard AASB 8 *Operating Segments*. The group does not allocate income tax, assets or liabilities to each segment because management does not include this information in its measurement of the performance of the operating segments. Depreciation and amortisation are, however, allocated to each operating segment; the amounts allocated to each reportable segment are shown below. Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an arm's-length basis and are eliminated on consolidation.

The group has identified two reportable segments, as follows:

- Product - providing hardware and software solutions that integrate customers' desktop, network and data centre hardware and software infrastructure; and
- Services - providing consulting services in relation to the design and operation of ICT solutions, workforce recruitment and consulting.

Summarised financial information by segment for the financial years ended 30 June 2010 and 2009 is set out in the following table.

## note 2. segment information (continued)

| | Product | | Services | | Total | |
|---|---|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| **Revenue** | | | | | | |
| Total revenue | 513,612 | 450,573 | 92,023 | 83,225 | 605,635 | 533,798 |
| Inter-segment revenue | (27) | (524) | (7,008) | (3,609) | (7,035) | (4,133) |
| External revenue | 513,585 | 450,049 | 85,015 | 79,616 | 598,600 | 529,665 |
| Unallocated corporate revenue: | | | | | | |
| Interest | | | | | 615 | 816 |
| **Consolidated revenue** | | | | | 599,215 | 530,481 |
| **Segment result** | | | | | | |
| Segment profit/(loss) | 18,115 | 17,325 | 7,059 | 3,619 | 25,174 | 20,944 |
| Unallocated corporate items | | | | | | |
| Interest revenue | | | | | 615 | 816 |
| Other employee and contractor costs | | | | | (6,138) | (4,873) |
| Rent | | | | | (478) | (357) |
| Depreciation and amortisation | | | | | (834) | (694) |
| Other | | | | | (2,546) | (1,683) |
| | | | | | (9,381) | (6,791) |
| **Net profit/(loss) before income tax** | | | | | 15,793 | 14,153 |
| **Items included in segment result** | | | | | | |
| Interest expense | 5 | - | - | 23 | 5 | 23 |
| Depreciation and amortisation expense | 35 | 165 | 146 | 191 | 181 | 356 |

## note 3. significant accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Significant accounting 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 financial year are discussed below.

*Impairment of goodwill*
The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 16.

## note 4. financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk, and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. To date the group has not used derivative financial instruments. The group uses sensitivity analysis to measure interest rate and foreign exchange risks, and aging analysis for credit risk. Risk management is carried out by the Chief Financial Officer (CFO) under policies approved by the board of directors. The CFO identifies, evaluates and mitigates financial risks in close cooperation with senior management.

The group's financial assets are all within the loans and receivables category, and its financial liabilities are all within the financial liabilities recorded at amortised cost category.

**(a) Market risk**
*(i) Foreign exchange risk*
Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The group has operated internationally in New Caledonia, however the operations have ceased in 2010; the revenue contracts and employee benefits were denominated in South Pacific francs (XPF). At 30 June 2010 and 2009 the group's exposure to foreign currency risk was immaterial.

*(ii) Price risk*
The group is not exposed to equity securities or commodity price risk.

## note 4. financial risk management (continued)

**(b) Credit risk**

Credit risk arises from the financial assets of the group, which comprise cash and cash equivalents, trade and other receivables, and available-for-sale financial assets. 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. The group does not hold any credit derivatives to offset its credit exposure. The group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history; collateral is not normally obtained. Risk limits are set for each individual customer in accordance with parameters set by the board. These limits are regularly monitored. Specific information as to the group's credit risk exposures is as follows:

- Cash and cash equivalents are maintained at one large financial institution.
- During the 2010 year, sales to one government customer comprised 7% of revenue (2009: 11%).
- There are a number of individually significant debtors. At 30 June 2010, one government debtor comprised 4% of total debtors, (2009: 14%) and the ten largest debtors comprised approximately 32% of total debtors (2009: 38%), of which 70% were accounts receivable from a number of government customers (2009: 72%).
- Generally our customers do not have external credit ratings. Management believes the credit quality of the group's customers is high based on the very low level of bad debt write-offs experienced historically. Bad debt write-offs as a percent of the trade receivables carrying amount was 0.2% for 2010 (2009: 0.2%).
- Financial guarantees have been extended to certain parties (refer to notes 22 and 26 for details).

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the business, the group aims at maintaining flexibility in funding by keeping committed credit lines available. The group manages liquidity risk by monitoring cash flows and ensuring that adequate cash and unutilised borrowing facilities are maintained.

The group had access to the following undrawn borrowing facilities at the reporting date:

| | Consolidated | |
|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 |
| Bank overdraft facility | 533 | 600 |
| Receivables financing facility | 7,000 | - |
| Bill facility | - | 3,955 |
| | 7,533 | 4,555 |

The bank overdraft facilities are subject to annual review, may be drawn at any time and may be terminated by the bank without notice. Interest is variable and is charged at prevailing market rates. The weighted average interest rate for the year ended 30 June 2010 was 9.5% (2009: 10.5%).

The receivables financing facility was opened during the current year in replacement of the bill facility that existed in 2009 and is subject to annual review. Under the facility amounts not exceeding 80% of the debtors balance (subject to the facility limit) may be drawn at any time. Interest is variable and is charged at prevailing market rates. The weighted average interest rate for the year ended 30 June 2010 was 6.6%.

The group's financial liabilities, which are all non-derivative and due within six months of year end, comprised $109,986,000 and $106,835,000 for the years ended 30 June 2010 and 2009, respectively.

**(d) Cash flow and fair value interest rate risk**

The group's exposure to interest rate risk arises predominantly from cash and cash equivalents bearing variable interest rates, as the group has no long-term debt obligations. At balance date the group maintained the following variable rate accounts:

| | 30 June 2010 | | 30 June 2009 | |
|---|---|---|---|---|
| Consolidated | Weighted average interest rate<br>% | Balance<br>$'000 | Weighted average interest rate<br>% | Balance<br>$'000 |
| Cash at bank and on hand | 1.7% | 12,576 | 3.3% | 4,957 |
| Deposits at call | 3.0% | 51,759 | 6.4% | 23,000 |
| Cash and cash equivalents | 2.8% | 64,335 | 5.1% | 27,957 |

At balance date, if the interest rates had changed, as illustrated in the table below, with all other variables remaining constant, after-tax profit and equity would have been affected as follows:

| | After-tax profit Higher/(lower) | | Equity Higher/(lower) | |
|---|---|---|---|---|
| | 2010<br>$000 | 2009<br>$000 | 2010<br>$000 | 2009<br>$000 |
| **Consolidated** | | | | |
| +1.5% (150 basis points) (2009: +1%) | 676 | 196 | 676 | 196 |
| –.5% (50 basis points) (2009: –.5%) | (225) | (98) | (225) | (98) |

## note 4. financial risk management (continued)

**(e) Net fair values**
The net fair values of financial assets (net of any provision for impairment) and financial liabilities approximate their carrying amounts primarily because of their short maturities.

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **note 5. other revenue** | | |
| Interest | 615 | 816 |
| **note 6. other income** | | |
| Foreign exchange gain | - | 243 |
| Reversal of allowance for impairment against receivables | - | 110 |
| Reversal of contingent consideration payable | 194 | - |
| | 194 | 353 |
| **note 7. expenses** | | |
| Cost of goods sold | 466,448 | 404,458 |
| Depreciation and amortisation of property and equipment (note 15) | 784 | 880 |
| Amortisation of intangibles (note 16) | 231 | 170 |
| | 1,015 | 1,050 |
| Employee benefits expense | 57,516 | 49,739 |
| Defined contribution superannuation expense | 4,423 | 4,021 |
| Other charges against assets | | |
| Impairment of trade receivables (note 12) | 166 | 218 |
| Impairment of other receivables | - | 60 |
| Impairment of inventory (note 13) | 7 | - |
| Impairment of intangible assets (note 16) | 178 | - |
| Rental expenses on operating leases | | |
| Minimum lease payments | 2,955 | 3,367 |
| Contingent rentals | (63) | (63) |
| Rental expenses – other | 1,016 | 524 |
| | 3,908 | 3,828 |
| Finance costs | | |
| Interest and finance charges paid/payable | 55 | 34 |
| Unwinding of discount on provisions and other payables | 14 | 48 |
| | 69 | 82 |
| Loss on disposal of property and equipment | 2 | - |
| **note 8. income tax** | | |
| **Income tax expense** | | |
| The major components of income tax expense are: | | |
| Current income tax expense | 5,169 | 4,500 |
| Deferred income tax relating to the origination and reversal of temporary differences | (290) | (108) |
| Adjustments for current tax of prior years | - | (71) |
| Income tax expense | 4,879 | 4,321 |

# notes to the financial statements (continued)

## note 8. income tax (continued)

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| A reconciliation between income tax expense and the product of accounting profit before income tax multiplied by the group's applicable income tax rate is as follows: | | |
| Accounting profit before income tax | 15,793 | 14,153 |
| Income tax calculated at the Australian tax rate: 30% (2009: 30%) | 4,738 | 4,246 |
| Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income: | | |
| Non-deductible items | 106 | 56 |
| Other | 35 | 90 |
| | 4,879 | 4,392 |
| Under (over) provision in prior year | - | (71) |
| Income tax expense | 4,879 | 4,321 |

The parent entity, in its capacity as head entity of the tax-consolidated group, paid income taxes of $2,583,000 during financial year 2010 (2009: $5,126,000 for group and parent entity). A subsidiary of the group outside of the consolidated tax group paid income taxes of $172,000 during the year ended 30 June 2010 (2009: $164,000).

| | Balance sheet 2010 $'000 | Balance sheet 2009 $'000 | Statement of comprehensive income 2010 $'000 | Statement of comprehensive income 2009 $'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| **Deferred income tax** | | | | |
| Deferred income tax for the group comprises: | | | | |
| **Deferred tax assets** | | | | |
| Accrued liabilities | 943 | 837 | 106 | 41 |
| Provisions | 656 | 595 | 61 | 129 |
| Lease incentive liability | 194 | 40 | 154 | (59) |
| Other | 8 | 11 | (3) | (5) |
| | 1,801 | 1,483 | 318 | 106 |
| **Deferred tax liabilities** | | | | |
| Intangible assets | - | (45) | 45 | 30 |
| Lease incentive assets | (130) | (40) | 90 | 59 |
| Other | (139) | (156) | 17 | (87) |
| | (269) | (241) | (28) | 2 |
| **Net deferred tax assets** | 1,532 | 1,242 | | |
| **Deferred income tax revenue** | | | 290 | 108 |

**Tax consolidation legislation**
Data#3 Limited and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is disclosed in note 1(e).

The entities in the tax-consolidated group entered into tax sharing and funding agreements. Under the terms of these agreements, the wholly-owned subsidiaries reimburse Data#3 Limited for any current tax payable assumed and are compensated by Data#3 Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Data#3 Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned subsidiaries' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax installments. The funding amounts are recognised as current intercompany receivables or payables.

In the opinion of the directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned subsidiaries in the case of a default by Data#3 Limited.

The group has no tax losses available for offset against future taxable profits (2009: nil).

| | Consolidated | |
|---|---|---|
| | 2010 Number | 2009 Number |
| **note 9. earnings per share** | | |
| **(a) Weighted average number of shares** | | |
| Weighted average number of ordinary shares for basic and diluted earnings per share | 15,397,495 | 15,421,679 |

**(b) Other information concerning earnings per share**

- Earnings for the purpose of the calculation of basic earnings per share and also diluted earnings per share is the net profit.
- Rights and options granted are considered to be potential ordinary shares. Details relating to rights and options are set out in note 27. No rights or options were on issue during 2010 or 2009; therefore there was no impact on the calculation of diluted earnings per share.

| | Parent | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| **note 10. dividends** | | |
| **Dividends paid on ordinary shares during the year** | | |
| Final fully franked dividend for 2009: 30.0c (2008: 28.0c) | 4,619 | 4,329 |
| Interim fully franked dividend for 2010: 23.0c (2009: 20.0c) | 3,542 | 3,080 |
| | 8,161 | 7,409 |
| **Dividends declared (not recognised as a liability at year end)** | | |
| Final fully franked dividend for 2010: 33.0c (2009: 30.0c) | 5,081 | 4,619 |
| The tax rate at which dividends paid have been franked is 30% (2009: 30%). Dividends declared will be franked at the rate of 30% (2009: 30%). | | |
| **Franking credit balance** | | |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%) | 11,676 | 10,113 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the current tax liability;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The dividend recommended by the directors since year end, but not recognised as a liability at year end, will result in a reduction in the franking account of $2,178,000 (2009: $1,980,000).

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| **note 11. cash and cash equivalents** | | |
| Cash at bank and on hand | 12,576 | 4,957 |
| Deposits at call | 51,759 | 23,000 |
| | 64,335 | 27,957 |

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |

## note 12. trade and other receivables

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Trade receivables | 82,134 | 94,169 |
| Allowance for impairment (a) | (97) | (196) |
| | 82,037 | 93,973 |
| Other receivables (b) | 4,316 | 2,233 |
| Receivable from Powerlan (Qld) | 1,327 | 1,327 |
| Allowance for impairment (c) | (1,327) | (1,327) |
| | - | - |
| | 86,353 | 96,206 |

**(a) Allowance for impairment**
An impairment loss of $166,000 (2009: $218,000) has been recognised by the group in the current year. These amounts have been included in other expense in the statements of comprehensive income. Movements in the provision for impairment loss were as follows:

| | Consolidated $'000 |
|---|---|
| **Carrying amount at 1 July 2008** | 122 |
| Provision for impairment recognised during the year | 218 |
| Receivables written off during the year | (34) |
| Unused amount reversed | (110) |
| **Carrying amount at 30 June 2009** | 196 |
| Provision for impairment recognised during the year | 166 |
| Receivables written off during the year | (265) |
| **Carrying amount at 30 June 2010** | 97 |

The ageing of overdue trade receivables for the group as at 30 June 2010 is as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Considered impaired $'000 | Past due but not impaired $'000 | Considered impaired $'000 | Past due but not impaired $'000 |
| 31-60 days | - | 7,847 | - | 10,361 |
| 61-90 days | - | 2,533 | - | 4,560 |
| 91-120 days | - | 1,634 | 74 | 1,695 |
| +120 days | 97 | 1,447 | 122 | 1,621 |
| | 97 | 13,461 | 196 | 18,237 |

There are no trade receivables that would otherwise be past due or impaired whose payment terms have been renegotiated. For trade receivables that are past due but not impaired, each customer's credit has been placed on hold where deemed necessary until full payment is made. Each of these debtors has been contacted, and management is satisfied that payment will be received in full.

**(b) Other receivables**
These amounts generally arise from accrued rebates or transactions outside the usual operating activities of the group. Interest is normally not charged, collateral is not normally obtained, and the receivables are normally due within 30 days of recognition.

**(c) Allowance for impairment – Powerlan**
An impairment loss of $60,000 (2010: nil) was recognised by the group in 2009. These amounts have been included in other expense in the statements of comprehensive income. Movements in the provision for impairment loss were as follows:

| | Consolidated $'000 |
|---|---|
| **Carrying amount at 1 July 2008** | 1,267 |
| Provision for impairment recognised during the year | 60 |
| **Carrying amount at 30 June 2009 and 30 June 2010** | 1,327 |

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **note 13. inventories** | | |
| Finished goods – at cost | 9,006 | 6,116 |
| Finished goods – at net realisable value | - | - |
| | 9,006 | 6,116 |

Finished goods at cost comprises $7,435,000 of inventory purchased pursuant to customer orders or letters of intent (2009: $6,116,000).

Inventories recognised as an expense for the year ended 30 June 2010 totalled $466,448,000 (2009: $404,458,000) for the group and are included in the cost of goods sold line item (refer to note 7). For the year ended 30 June 2010 the amount of inventory charged as an expense in other expenses included $7,000 (2009: nil) for the group relating to inventory that was considered obsolete.

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **note 14. other current assets** | | |
| Prepayments | 1,109 | 740 |
| Security deposits | 237 | 203 |
| | 1,346 | 943 |
| **note 15. property and equipment** | | |
| Leasehold improvements – at cost | 3,630 | 3,447 |
| Accumulated amortisation | (3,030) | (2,400) |
| | 600 | 1,047 |
| Equipment – at cost | 990 | 938 |
| Accumulated depreciation | (817) | (675) |
| | 173 | 263 |
| | 773 | 1,310 |

| | Leasehold improvements $'000 | Equipment $'000 | Total $'000 |
|---|---|---|---|
| **Consolidated** | | | |
| **Carrying amount at 1 July 2008** | 1,457 | 273 | 1,730 |
| Additions | 287 | 174 | 461 |
| Disposals | - | (1) | (1) |
| Depreciation and amortisation expense | (697) | (183) | (880) |
| **Carrying amount at 30 June 2009** | 1,047 | 263 | 1,310 |
| Additions | 183 | 66 | 249 |
| Disposals | - | (2) | (2) |
| Depreciation and amortisation expense | (630) | (154) | (784) |
| **Carrying amount at 30 June 2010** | 600 | 173 | 773 |

## note 16. intangible assets

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Goodwill – at cost | 5,036 | 5,036 |
| Accumulated impairment | (204) | (76) |
| | 4,832 | 4,960 |
| Software assets – at cost | 898 | 780 |
| Accumulated amortisation and impairment | (592) | (461) |
| | 306 | 319 |
| Customer relationships – at cost | 300 | 300 |
| Accumulated amortisation and impairment | (300) | (150) |
| | - | 150 |
| | 5,138 | 5,429 |

| | Consolidated | | | |
|---|---|---|---|---|
| | Goodwill $'000 | Software assets $'000 | Customer relation-ships $'000 | Total $'000 |
| **Carrying amount at 1 July 2008** | 4,960 | 67 | 250 | 5,277 |
| Additions | - | 322 | - | 322 |
| Amortisation expense | - | (70) | (100) | (170) |
| **Carrying amount at 30 June 2009** | 4,960 | 319 | 150 | 5,429 |
| Additions | - | 118 | - | 118 |
| Amortisation expense | - | (131) | (100) | (231) |
| Impairment charge | (128) | - | (50) | (178) |
| **Carrying amount at 30 June 2010** | 4,832 | 306 | - | 5,138 |

**Intangibles – software assets and customer relationships**
Software assets and customer relationships, which have been externally acquired, have been capitalised at cost and are amortised on a straight-line basis over the assets' useful economic lives which are generally two to five years for software assets and three years for customer relationships. The useful lives and potential impairment of the software assets and customer relationships are reviewed at the end of each financial year.

**Goodwill impairment testing**
Goodwill acquired through business acquisitions has been allocated to the smallest identifiable group of assets that generates largely independent cash inflows and which are expected to benefit from synergies of the combination. Data#3 has allocated goodwill according to operating segment, unless the segment did not exist at the time of the business acquisition which generated the goodwill. Under AIFRS, goodwill must be tested at least annually for impairment. Management has carried out impairment testing as at each reporting date and has recorded an impairment charge of $128,000 in relation to the year ended 30 June 2010 for goodwill arising from the Fingerprint Consulting Services acquisition in 2008 (2009: nil).

The recoverable amount has been determined based on a value-in-use calculation using cash flow projections based on financial projections approved by senior management for financial year 2011. The before-tax discount rate applied to cash flow projections is 10% (2009: 10%). Cash flows beyond the 2011 financial year have been extrapolated using an average growth rate of 7% (2009: 7%).

***Key assumptions used in value-in-use calculations***
Budgeted gross margins have been determined based on past performance and management's expectations for the future. The discount rate was estimated based on the company's weighted average cost of capital at the date of impairment test.

## note 17. trade and other payables

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **Current** | | |
| Trade payables - secured (note 20) | - | 8,094 |
| Trade payables - unsecured | 96,177 | 83,860 |
| | 96,177 | 91,954 |
| Other payables - unsecured | 13,809 | 14,687 |
| | 109,986 | 106,641 |
| **Non-current** | | |
| Other payables - unsecured | - | 194 |

Other payables (non-current) comprised amounts payable as contingent consideration for a business acquisition. The payable was reversed during the year as the amount is longer required to be paid.

## note 18. provisions

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **Current** | | |
| Employee benefits | 703 | 1,060 |
| Lease remediation (note 1(f)) | 146 | - |
| | 849 | 1,060 |
| **Non–current** | | |
| Employee benefits | 1,041 | 487 |
| Lease remediation (note 1(f)) | 138 | 182 |
| | 1,179 | 669 |

Movements in provisions other than employee benefits are as follows:

| | Consolidated Lease remediation $'000 |
|---|---|
| **Balance at 1 July 2008** | 168 |
| Increase to present value | 14 |
| **Balance at 30 June 2009** | 182 |
| Arising during the year | 102 |
| Unused amount reversed | (14) |
| Increase to present value | 14 |
| **Balance at 30 June 2010** | 284 |

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |

## note 19. other liabilities

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current** | | |
| Unearned income | 26,452 | 6,517 |
| Lease incentives | 95 | 135 |
| | 26,547 | 6,652 |
| **Non–current** | | |
| Lease incentives | 551 | - |

Unearned income comprises amounts received in advance of the provision of goods or services.

## note 20. secured liabilities

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Secured liabilities (current and non-current)** | | |
| Lease incentives (note 19) | 646 | 135 |
| Trade payables (note 17) | - | 8,094 |
| Total secured liabilities | 646 | 8,229 |

**Assets pledged as security**
All of the assets of the group are pledged as security for bank facilities (refer to note 4) and certain trade creditor facilities as noted above. Leasehold improvements (refer to note 15) effectively secure lease incentive liabilities as noted above.

## note 21. contributed equity

**(a) Movements in ordinary share capital**

| Details | Notes | Number of shares | Issue price $ | $'000 |
|---|---|---|---|---|
| **Balance – 1 July 2008** | | 15,478,330 | | 8,694 |
| Repurchase of ordinary shares | (i) | (34,481) | 5.50 | (190) |
| Repurchase of ordinary shares | (i) | (4,000) | 5.40 | (22) |
| Repurchase of ordinary shares | (i) | (2,000) | 5.35 | (11) |
| Repurchase of ordinary shares | (i) | (1,000) | 5.31 | (5) |
| Repurchase of ordinary shares | (i) | (1,641) | 5.30 | (9) |
| Repurchase of ordinary shares | (i) | (1,013) | 5.25 | (5) |
| Repurchase of ordinary shares | (i) | (1,000) | 5.20 | (5) |
| Repurchase of ordinary shares | (i) | (1,000) | 5.10 | (5) |
| Repurchase of ordinary shares | (i) | (5,000) | 5.00 | (25) |
| Repurchase of ordinary shares | (i) | (1,000) | 4.88 | (5) |
| Repurchase of ordinary shares | (i) | (2,000) | 4.81 | (9) |
| Repurchase of ordinary shares | (i) | (15,700) | 4.80 | (75) |
| Repurchase of ordinary shares | (i) | (1,000) | 4.75 | (5) |
| Repurchase of ordinary shares | (i) | (1,000) | 4.70 | (5) |
| Repurchase of ordinary shares | (i) | (1,000) | 4.60 | (5) |
| Repurchase of ordinary shares | (i) | (5,000) | 4.50 | (22) |
| Repurchase of ordinary shares | (i) | (1,000) | 4.45 | (4) |
| Repurchase of ordinary shares | (i) | (2,000) | 4.40 | (9) |
| **Balance – 30 June 2009** | | 15,397,495 | | 8,278 |
| **Balance – 30 June 2010** | | 15,397,495 | | 8,278 |

(i) The company commenced a 12 month on-market buyback of up to 10% of the company's ordinary shares beginning 1 September 2006; the buyback period was most recently extended to 31 August 2010. All shares purchased under the buyback are cancelled.

Effective 1 July 1998, the corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the company does not have authorised capital or par value in respect of its issued shares.

## note 21. contributed equity (continued)

**(b) Ordinary shares**
All ordinary shares issued as at 30 June 2010 and 2009 are fully paid. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote. The issue of shares in the company, subject to legislative requirements, is under the control of the directors.

**(c) Share options**
No share options remain outstanding as at 30 June 2010 (refer to note 27).

**(d) Capital management**
When managing capital (equity), the board's objective is to ensure the group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The board adjusts the capital structure as necessary to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, the board may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or reduce debt that may be incurred to acquire assets.

During 2010, the board paid dividends of $8,161,000 (2009: $7,409,000). The board's intent for dividend payments for 2011 - 2015 is to maintain the current dividend payout ratio; however, market conditions will be taken into consideration prior to the declaration of each dividend. The board has no current plans to issue further shares on the market but intends to use share buybacks as a mechanism to deliver improved shareholder return on a sustainable basis and to reduce volatility in the company's share price.

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

## note 22. contingent liabilities

At 30 June 2010 bank guarantees totalling $467,000 (2009: $410,000) were provided to lessors as security for premises leased by the parent entity and the subsidiaries. The guarantees will remain in place for the duration of the operating leases. Bank guarantees are secured by charges over all of the group's assets.

Cross guarantees have been provided by the parent entity and its Australian wholly-owned subsidiaries as described in note 26.

## note 23. commitments

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 | 2010<br>$'000 | 2009<br>$'000 |
| Future minimum rentals payable under non-cancelable operating leases as at 30 June are as follows: | | | | |
| Within one year | 3,293 | 2,778 | 1,599 | 1,397 |
| Later than one year but not later than five years | 8,895 | 2,590 | 4,971 | 1,104 |
| Later than five years | 7,485 | - | 7,485 | - |
| | 19,673 | 5,368 | 14,055 | 2,501 |

Operating leases include leases of premises and office equipment. Under the relevant lease agreements (mainly premises) the rentals are subject to periodic review to market and/or for CPI increases. Operating leases are under normal commercial operating lease terms and conditions.

## note 24. key management personnel

Key management personnel compensation is set out below.

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2010<br>$ | 2009<br>$ | 2010<br>$ | 2009<br>$ |
| Short-term employee benefits | 3,124,330 | 2,853,248 | 1,604,829 | 1,491,808 |
| Long-term employee benefits | 28,681 | 41,790 | 15,264 | 20,254 |
| Post-employment benefits | 134,588 | 128,860 | 76,744 | 73,880 |
| | 3,287,599 | 3,023,898 | 1,696,837 | 1,585,942 |

**Equity instrument disclosures relating to key management personnel**

*Shares under option*
Rights or options may be granted to directors and executives under the Data#3 Limited Deferred Share and Incentive Plan or the Data#3 Limited Employee Option Plan, details of which are set out in note 27. No rights or options were granted and no rights or options were outstanding during the 2009 and 2010 financial years.

# notes to the financial statements (continued)

## note 24. key management personnel (continued)

**Number of shares in Data#3 Limited held by key management personnel**
Ordinary shares held directly, indirectly or beneficially by each key management person, including their personally-related entities are shown below.

| | Balance 1 July 2008 | Other changes* | Balance 30 June 2009 | Other changes* | Balance 30 June 2010 |
|---|---|---|---|---|---|
| **Directors:** | | | | | |
| Anderson, R. | 60,000 | - | 60,000 | - | 60,000 |
| Grant, J. | 763,520 | - | 763,520 | - | 763,520 |
| Johnston, I | 60,000 | - | 60,000 | - | 60,000 |
| Powell, W.T. | 465,000 | (25,000) | 440,000 | (30,000) | 410,000 |
| **Other executives:** | | | | | |
| Baynham, L. | 51,600 | - | 51,600 | - | 51,600 |
| Colledge, B. | 23,600 | - | 23,600 | - | 23,600 |
| Crouch, B. | 10,000 | - | 10,000 | - | 10,000 |
| Esler, M. | 750,100 | - | 750,100 | (10,000) | 740,100 |
| Hill, B. | 50,000 | - | 50,000 | - | 50,000 |
| MacPherson, L. | 5,000 | (2,000) | 3,000 | - | 3,000 |
| | 2,238,820 | (27,000) | 2,211,820 | (40,000) | 2,171,820 |

* Except as noted, other changes refer to the individual's on-market trading.

Share ownership disclosures in the 2009 financial year included information for all executives who were part of the senior leadership team. The board has reassessed the executive group and has reduced the disclosures in the above table strictly to those individuals with the authority and responsibility for planning, directing and controlling the activities of the group directly or indirectly.

No shares were granted to key management personnel during the year as compensation (2009: nil) nor were any issued on exercise of options (2009: nil). Key management personnel who are not shown in the tables above held no shares or options in Data#3 Limited. There has been no movement in key management personnel shareholdings since year end up to the date of this report.

**Other transactions with key management personnel**
Mr J E Grant, an executive director, is a director of Wood Grant & Associates Pty Ltd and has the capacity to significantly influence decision making of that entity. Data#3 Limited engages Wood Grant & Associates Pty Ltd to assist with design and production of the annual and half-yearly financial reports. These transactions are made on normal commercial terms and conditions and at market rates.

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Amounts recognised as expense** | | |
| Other expense | 17,940 | 20,718 |

There were no other transactions during the year with key management personnel or their personally–related entities.

| | Consolidated | |
|---|---|---|
| | 2010 $ | 2009 $ |
| **note 25. remuneration of auditor** | | |
| During the year the following fees were paid or payable to the auditor for audit and non-audit services: | | |
| **Audit services** | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | 105,000 | 102,500 |
| **Non-audit services** | | |
| Acquisition due diligence services | 8,000 | - |
| Tax compliance services | 5,600 | 9,000 |
| Total remuneration | 118,600 | 111,500 |

There was no remuneration paid to related practices of Johnston Rorke. It is the group's policy to employ Johnston Rorke on assignments additional to its statutory audit duties where Johnston Rorke's expertise and experience with the group are important.

# notes to the financial statements (continued)

## note 26. related parties

**Wholly–owned group**
The consolidated financial statements include the financial statements of Data#3 Limited and the subsidiaries listed in the following table.

| Name of entity | Country of formation or incorporation | Equity holding (ordinary shares) 2010 % | 2009 % |
|---|---|---|---|
| Data#3 Business Systems Pty Ltd | Australia | 100 | 100 |
| Gratesand Pty Ltd | Australia | 100 | 100 |
| Data#3 NC SARL | New Caledonia | 100 | 100 |

Summarised financial information for the parent entity is as follows:

| | Parent 2010 $'000 | 2009 $'000 |
|---|---|---|
| **As at 30 June** | | |
| Current assets | 66,027 | 28,422 |
| Total assets | 66,503 | 29,073 |
| Current liabilities | 52,664 | 15,507 |
| Total liabilities | 52,958 | 15,566 |
| Shareholders' equity | | |
| Contributed equity | 8,278 | 8,278 |
| Retained earnings | 5,267 | 5,229 |
| Total equity | 13,545 | 13,507 |
| **For the year ended 30 June** | | |
| Net profit | 8,199 | 7,595 |
| Total comprehensive income | 8,199 | 7,595 |

Transactions between Data#3 Limited and other entities in the wholly-owned group during the years ended 30 June 2010 and 30 June 2009 consisted of:

- Loans advanced to/by subsidiaries and repayments;
- Recovery of corporate charges received by Data#3 Limited for accounting, administrative services, management and use of assets;
- Management charges from subsidiaries for use of assets and provision of systems and services;
- Dividends received by Data#3 Limited; and
- Transactions between Data#3 Limited and its wholly-owned subsidiaries under the tax sharing and funding agreements described in note 8. The parent entity recognised a receivable of $5,044,000 in relation to its subsidiaries' current tax amounts for the year ended 30 June 2010 (2009: a receivable of $4,270,000).

Loans provided are at call, interest-free and unsecured and have no fixed repayment terms. Corporate charges by the parent entity are based on budgeted cost. Management charges by subsidiaries are based on discounted retail price. Unless otherwise stated, transactions are on commercial terms and conditions.

Management has carried out impairment testing as at each reporting date in relation to the parent entity's investment in its subsidiaries. As at 1 July 2004 an impairment loss of $1,745,000 was recognised against the net investment in CICtechnology (Gratesand Pty Ltd). In 2006 the investment's carrying value was written down to zero on the basis of the value-in-use calculation used to determine the asset's recoverable amount.

**Entities subject to class order relief**
Data#3 Limited, Data#3 Business Systems Pty Ltd (Business Systems), and Gratesand Pty Ltd (Gratesand) are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, these wholly-owned entities have been relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities & Investments Commission. Data#3 Limited and Business Systems both have net assets as at 30 June 2010. However, Gratesand has net liabilities of $2,100,000 as at 30 June 2010 (2009: $5,045,000). Management believes no provision is necessary in relation to the net deficiency in Gratesand, as Gratesand has traded profitably from financial year 2007 and is expected to continue trading profitably in the foreseeable future. Additionally, trading profits in other subsidiaries which are party to the deed of cross guarantee, particularly Business Systems, are more than sufficient to cover the deficiency in Gratesand.

The above companies, which comprise the parent entity and all of its Australian subsidiaries, represent a "Closed Group" for the purposes of the class order. The consolidated statements of comprehensive income for the closed group for the years ended 30 June 2010 and 2009 are set out in the following table.

## note 26. related parties (continued)

| | Closed Group | |
|---|---|---|
| | **2010 $'000** | **2009 $'000** |
| **Revenues** | | |
| Sale of goods | 513,586 | 449,982 |
| Services | 83,771 | 77,671 |
| Other | 984 | 1,459 |
| **Total** | 598,340 | 529,112 |
| **Other income** | 194 | 111 |
| **Expenses** | | |
| Changes in inventories of finished goods | 2,897 | (692) |
| Purchase of goods | (467,978) | (403,715) |
| Employee and contractor costs directly on-charged (cost of sales on services) | (30,651) | (35,860) |
| Other cost of sales on services | (12,820) | (6,632) |
| Other employee and contractor costs | (63,000) | (56,914) |
| Telecommunications | (1,265) | (1,216) |
| Software maintenance and licensing | (332) | (183) |
| Rent | (3,872) | (3,769) |
| Travel | (1,685) | (1,311) |
| Professional fees | (611) | (623) |
| Depreciation and amortisation | (1,013) | (1,046) |
| Finance costs | (69) | (82) |
| Other | (2,706) | (3,320) |
| **Total** | (583,105) | (515,363) |
| **Profit before income tax expense** | 15,430 | 13,860 |
| Income tax expense | (4,771) | (4,211) |
| **Net profit** | 10,659 | 9,649 |
| **Total comprehensive income** | 10,659 | 9,649 |

A summary of movements in consolidated retained earnings for the years ended 30 June 2010 and 2009 of the closed group is set out below.

| | Closed Group |
|---|---|
| | **$'000** |
| **Retained earnings at 1 July 2008** | 12,132 |
| Profit after income tax/net profit (total comprehensive income) | 9,649 |
| Dividends provided for or paid | (7,409) |
| **Retained earnings at 30 June 2009** | 14,372 |
| Profit after income tax/net profit (total comprehensive income) | 10,659 |
| Dividends provided for or paid | (8,161) |
| **Retained earnings at 30 June 2010** | 16,870 |

## note 26. related parties (continued)

The consolidated balance sheet as at 30 June 2010 for the closed group is set out below.

| | Closed Group | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| **Current assets** | | |
| Cash and cash equivalents | 64,331 | 27,676 |
| Trade and other receivables | 86,185 | 93,777 |
| Inventories | 9,006 | 6,116 |
| Other | 1,342 | 3,149 |
| Total current assets | 160,864 | 130,718 |
| **Non-current assets** | | |
| Other financial assets | 14 | 14 |
| Property and equipment | 773 | 1,306 |
| Deferred tax assets | 1,649 | 1,242 |
| Intangible assets | 5,138 | 5,429 |
| Total non-current assets | 7,574 | 7,991 |
| **Total assets** | 168,438 | 138,709 |
| **Current liabilities** | | |
| Trade and other payables | 109,985 | 106,513 |
| Current tax liabilities | 3,301 | 545 |
| Provisions | 849 | 1,060 |
| Other | 27,425 | 7,078 |
| Total current liabilities | 141,560 | 115,196 |
| **Non-current liabilities** | | |
| Other payables | - | 194 |
| Provisions | 1,179 | 669 |
| Other | 551 | - |
| Total non-current liabilities | 1,730 | 863 |
| **Total liabilities** | 143,290 | 116,059 |
| **Net assets** | 25,148 | 22,650 |
| **Equity** | | |
| Contributed equity | 8,278 | 8,278 |
| Retained earnings | 16,870 | 14,372 |
| **Total equity** | 25,148 | 22,650 |

## note 27. share-based payments

**Data#3 Limited Employee Share Ownership Plan**
The establishment of the Data#3 Limited Employee Share Ownership Plan (ESOP) was approved by shareholders at the 2007 annual general meeting. The object of the plan is to recognise the contribution of eligible employees by providing them with an opportunity to share in the future growth of the company.

Under the ESOP, all full-time and part-time employees of the group, excluding directors, may be offered fully paid ordinary shares in the company, at no consideration, with a total value in any given financial year not exceeding the exemption requirements of the Tax Act or any limit placed by the board of directors (currently $1,000). Shares are offered under the ESOP at the sole discretion of the board of directors. The market value of shares issued under the ESOP, measured as the weighted average market price at which the company's shares are traded during the one week period up to and including the day of issue, is recognised in the balance sheet as share capital, and compensation expense is recorded as part of employee benefits costs in the period the shares are granted.

Shares issued under the ESOP are subject to a holding lock period which concludes the earlier of three years after issuance of the shares or cessation of employment of the participant. During the holding lock period, the shares are not transferable and no security interests can be held against them. In all other respects the shares rank equally with other fully paid ordinary shares on issue (see note 21(b)).

## note 27. share-based payments (continued)

**Data#3 Limited Employee Share Ownership Plan (continued)**
Where shares are issued to employees of subsidiaries with the group, the subsidiaries compensate Data#3 Limited for the fair value of these shares. To 30 June 2010 no shares have been issued under the ESOP. The ESOP is currently being held in abeyance until such time as the directors determine that the plan should be implemented.

**Data#3 Limited Deferred Share and Incentive Plan**
The establishment of the Data#3 Limited Deferred Share and Incentive Plan (DSIP) was approved by shareholders at the 2007 annual general meeting. The plan is designed to provide full-time and part-time employees, including directors, with medium and long-term incentives to recognise ongoing contribution to the achievement of company objectives and to encourage them to have a personal interest in the future growth and development of the company. Under the DSIP the board of directors may award selected employees DSIP securities in the form of either a DSIP share or a DSIP incentive, being a right to a future share. The market value of shares issued under the DSIP, measured as the weighted average market price at the date of grant, is recognised in the balance sheet as share capital, and compensation expense is recorded as part of employee benefits costs in the period the shares are granted. DSIP incentives are accounted for as described in note 1(s).

DSIP securities remain in the DSIP until performance conditions (in the case of DSIP incentives) or disposal conditions (in the case of DSIP shares) are met. The performance conditions are designed from time to time having regard to various hurdles approved by the board of directors, such as the individual's key performance indicators and the company's performance, by reference to commonly employed external measures such as Total Shareholder Return or Earnings Per Share Growth, as well as pertinent internal measures, such as the successful execution of a business plan over a three-year period. Several performance conditions may apply to the one invitation. To this extent, the performance conditions will be commensurate with the company's remuneration philosophy, aligning the interests of participants with shareholders. Generally, shares are not issued under the DSIP unless the related performance conditions are met.

Where shares or incentives are issued to employees of subsidiaries with the group, the subsidiaries compensate Data#3 Limited for the fair value of these shares. To 30 June 2010 no shares or incentives have been issued under the DSIP. The DSIP is currently being held in abeyance until such time as the directors determine that the plan should be implemented.

**Data#3 Limited Employee Option Plan**
The Data#3 Limited Employee Option Plan (the Plan) was approved at an extraordinary general meeting of the company held on 5 November 1997. All full-time and part-time employees of the group, including directors, are eligible to participate in the plan.
Options are issued for $1 per parcel of options issued and are exercisable from two years prior to the expiry date; the options lapse 30 days following cessation of the option holder's employment. The exercise price of the options last issued was determined as the higher of 90 cents per share or the weighted average price of the shares as listed with the ASX within the 5 days immediately prior to the offer date. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

No options were granted, exercised or outstanding under the plan during the years ended 30 June 2009 or 2010.

# directors' declaration

In the opinion of the directors:

(a) the financial statements and notes set out on pages 40 to 66 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  (ii) giving a true and fair view of the group's financial position as at 30 June 2010 and of its performance for the financial year ended on that date;

(b) the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board;

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

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in note 26 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 26.

The directors have been given the declarations by the managing director and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

R A Anderson

**R A Anderson**
Director

Brisbane
23 August 2010

# independent auditor's report to the members of Data#3 Limited

JOHNSTON RORKE
CHARTERED ACCOUNTANTS

Level 30, Central Plaza One
345 Queen Street Brisbane Q 4000
GPO Box 1144 Brisbane Q 4001
Ph 07 3222 8444 / Fax 07 3221 7779
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**Report on the financial report**

We have audited the accompanying financial report of Data#3 Limited (the company), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with 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, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, 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.

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*.

# independent auditor's report to the members of Data#3 Limited
(continued)

*Auditor's opinion on the financial report*

In our opinion:

(a) the financial report of Data#3 Limited is in accordance with the *Corporations Act 2001*, including:

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

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the remuneration report**

We have audited the remuneration report comprising section 11 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion the remuneration report of Data#3 Limited for the year ended 30 June 2010 complies with Section 300A of the *Corporations Act 2001*.

**JOHNSTON RORKE**
Chartered Accountants

**J J Evans**
Partner

Brisbane, Queensland
23 August 2010

# shareholder information

The shareholder information set out below was applicable as at 18 August 2010.

## 1. distribution of equity securities

(a) Analysis of numbers of equity security holders by size of holding:

| | Class of security | |
|---|---|---|
| | Ordinary shares | Options for ordinary shares |
| 1 - 1,000 | 1,075 | - |
| 1,001 - 5,000 | 1,414 | - |
| 5,001 - 10,000 | 295 | - |
| 10,001 - 100,000 | 163 | - |
| 100,001 and over | 19 | - |
| | 2,966 | - |

(b) There were 62 holders of less than a marketable parcel of ordinary shares.

## 2. twenty largest quoted equity security holders

| Name | Ordinary shares | |
|---|---|---|
| | Number held | Percentage of issued shares % |
| J P Morgan Nominees Australia Limited | 697,227 | 4.53 |
| Oakport Pty Ltd | 514,399 | 3.34 |
| Citicorp Nominees Pty Limited | 513,587 | 3.34 |
| Powell Clark Trading Pty Ltd | 359,000 | 2.33 |
| Wood Grant & Associates Pty Ltd | 338,221 | 2.20 |
| National Nominees Limited | 324,393 | 2.11 |
| Citicorp Nominees Pty Limited | 298,988 | 1.94 |
| Elterry Pty Ltd | 220,000 | 1.43 |
| Rubi Holdings Pty Ltd | 210,002 | 1.36 |
| ANZ Nominees Limited | 203,758 | 1.32 |
| Thomson Associates Pty Ltd | 200,000 | 1.30 |
| National Australia Trustees Limited | 199,205 | 1.29 |
| M R Esler | 179,100 | 1.16 |
| J E Grant | 179,100 | 1.16 |
| HSBC Custody Nominees (Australia) Limited | 170,012 | 1.10 |
| J T Populin | 169,014 | 1.10 |
| JHG Super Pty Ltd | 160,771 | 1.04 |
| Perpetual Trustees Consolidated Limited | 134,972 | 0.88 |
| Citicorp Nominees Pty Limited | 116,521 | 0.76 |
| W T & E M Powell | 100,000 | 0.65 |
| | 5,288,270 | 34.35 |

# shareholder information (continued)

## 3. substantial shareholders

Substantial shareholders in the company are set out below:

| Name | Number held | Percentage |
|---|---|---|
| Commonwealth Bank of Australia | 962,367 | 6.25 |
| Celeste Funds Management Limited | 782,276 | 5.08 |

## 4. unquoted equity securities

| | Number held | Number of holders |
|---|---|---|
| Options issued under Data#3 Limited Employee Option Plan to take up ordinary shares | - | - |

## 5. voting rights

The voting rights attaching to the ordinary shares, set out in the company's constitution, are:

(a) every shareholder present at a general meeting has one vote on a show of hands; and
(b) on a poll, each shareholder has one vote for each fully paid share held.

Options have no voting rights.

# financial calendar

| 2010 | | 2011 | |
|---|---|---|---|
| 23 August | Full year results announcement | By 21 February | Half year results announcement |
| 16 September | Record date for final dividend | 17 March | Record date for interim dividend |
| 30 September | Final dividend payment | 31 March | Interim dividend payment |
| 5 November | Annual General Meeting | 30 June | Year end |

## CORPORATE HEAD OFFICE
**Brisbane**
Level 2
Data#3 Centre
80 Jephson Street
TOOWONG QLD 4066

From 1st November 2010 the corporate head office will move to:
67 High Street
TOOWONG QLD 4066
All other contact details remain unchanged

P.O. Box 551
INDOOROOPILLY QLD 4068

All Data#3 locations can be reached on the following numbers for the cost of a local call.

T: 1300 23 28 23
F: 1300 32 82 32
E: info@data3.com.au
W: www.data3.com.au

## REGISTERED OFFICE
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## BRANCH OFFICES
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**Melbourne**
Level 2
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HAWTHORN EAST VIC 3123

**Canberra**
Level 1
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BARTON ACT 2600

**Adelaide**
Level 1
84 North Terrace
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**Perth**
Level 2
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WEST PERTH WA 6005

## CONFIGURATION AND INTEGRATION CENTRES
**Brisbane**
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Johnston Rorke
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## BANKERS
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Corporate Banking
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BRISBANE QLD 4000

## SHARE REGISTRY
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## ABN NUMBERS
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Data#3 Business Systems Pty Ltd
ABN: 31 010 500 642

Gratesand Pty Ltd
ABN: 49 002 725 171

## ACN NUMBER
010 545 267

## ASX CODE
DTL

www.data3.com.au