2010 ANNUAL REPORT

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www.coolorcosy.com.au

FINANCIAL HIGHLIGHTS

Sales revenue from Continuing Operations ($'000)	11,316	^	33%
Earnings Before Interest & Tax ($'000)	1,729	^	328%
Profit After Tax ($'000)	1,179	^	159%
Earnings Per Share (cents)	1.82	^	152%

Notice of Annual General Meeting

The 2010 Annual General Meeting of Cool or Cosy Limited is scheduled to be held at: 9:00am on Friday, 26 November 2010 at Cool or Cosy Head Office located at:

36 Computer Road, Yatala, Queensland

The business of the meeting is outlined in the Notice of Meeting and Proxy Form.

ASX Code:

COS

Website:

www.coolorcosy.com.au

Share Registry:

www.registries.com.au

Cool or Cosy Limited

ABN: 83 103 472 751

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CHAIRMAN & MANAGING DIRECTOR'S OVERVIEW

Performance Overview

The overall performance of Cool or Cosy Limited ("Cool or Cosy") during the 2010 financial year was significantly impacted by a combination of factors including:

- difficult trading conditions presented by the continuation of the global economic crisis yielding reduced demand for its air conditioning products and services;
- sustained and aggressive price competition by major retailers on air conditioning products;
- the introduction of the main phase of the Home Insulation Program ("HIP"); and
- sudden, unexpected and on-going changes by the Federal Government to the HIP.

Despite these factors, Cool or Cosy reported a profit after tax of $1.179 million for the financial year ended 30 June 2010 compared to an after tax loss in the prior corresponding period of $1.986 million.

This performance represents a turnaround in profitability of $3.165 million and equates to earnings per share (EPS) for the reporting period of 1.82 cents (2009: minus [-] 3.48 cents); an improvement in EPS of 5.3 cents per share.

The significant improvement in performance for the year was generated on sales of $11.316 million representing an overall increase of 32.6% compared to the 2009 financial year and gross profit margins of 64% (2009: 53%).

Gross margin improvements were achieved due largely to the increase in insulation revenues derived from the commencement of the main phase of the HIP, implementation of cost containment and efficiency initiatives, and reductions obtained in the cost of raw materials required for production of insulation and air conditioning finished goods inventory sold during the period.

Performance in the second half year, however, was significantly impacted by a series of unexpected changes to the Federal Government's HIP and related schemes which eventually culminated in the demise of these programs.
The combined effect of these changes resulted in:

- the loss of insulation revenue comprising a substantial proportion of overall sales;
- the inability of the Company to respond to or anticipate these changes with the same degree of haste and certainty as these were announced by the Federal Government; and
- unexpected redundancy costs and other expenses.

Cash balances amounted to $1.2 million as at 30 June 2010 (2009: $1.233 million).

The net tangible asset position of the Company continues to be impacted by the capitalisation of expenses associated with the research and development of its energy saving heat storage technology. The development process is now substantially complete and the Board expects that revenues will be generated during the 2011 financial year following the conclusion of on-going discussions regarding its intended commercialisation with several interested parties.

Other than convertible notes amounting to $4.185 million at a fixed interest rate of 10% and not due for repayment until the last quarter of 2012, and lease and hire purchase obligations, Cool or Cosy continues to have no other form of debt.

OPERATIONS

Insulation

Sales of the Company's cellulose fibre insulation product provided a significant contribution to the overall performance of the business throughout the 2010 financial year and, in particular, the first half year due to the introduction by the Federal Government of the main phase of the HIP which commenced on 1 July 2009.

However, commencing in November 2009, the Federal Government proceeded to introduce a series of unexpected, at times abrupt and progressive changes to the HIP including:

- a reduction in the rebate paid for insulation under the program, suspension of foil insulation and the establishment of new competency requirements for installers;
- discontinuation of the HIP on and with effect from 19 February 2010;
- proposed introduction of a new program called the Renewable Energy Bonus Scheme (REBS) announced on 19 February 2010 with intention for the REBS to commence on or by 1 June 2010;
- discontinuation of the insulation component of the REBS on 22 April 2010 and announcement on the same day of the introduction of the:

    - Home Insulation Safety Program ("HISP");
    - Foil Insulation Safety Program ("FISP"); and
    - Insulation Industry Assistance Package.

The detailed changes implemented by the Federal Government adversely impacted the performance of the Company, particularly in the second half of the 2010 financial year, through the combined impact of:

- a substantial reduction in the demand for Cool or Cosy cellulose fibre insulation products; this resulted in a significant loss of insulation revenue arising from the consequent:

    - reduction in the value or cancellation of a significant number of retail and wholesale insulation contracts existing at the time of the various Government announcements;
    - erosion of the significant wholesale insulation business which had been established by the Company from the inception of the HIP; and
    - inability of a significant number of households to afford insulation on the basis of a diminished capacity to meet the costs associated with the purchase and installation of the product brought about by the reduction and subsequent removal of applicable rebates under the various schemes.

- creating prolonged periods of uncertainty regarding the commencement, terms and operation of various iterations of the HIP and related schemes; this had the effect of obfuscating opportunities for cost containment, avoidance and savings within its insulation business and deprived the Company at various times of the opportunity to plan for the pursuit of alternative strategic initiatives;

- redundancy payments amounting to approximately $85k.

The Company:

- continues to await the formal release by the Federal Government of the precise terms and conditions of the HISP and FISP;
- has formally recorded its expression of interest with the Federal Government's appointed contractor to participate in the HISP, subject to an assessment of the prevailing terms and conditions of the scheme; and
- received a total of $55,207 under the Insulation Industry Assistance Package in the year under review.

Cool or Cosy anticipates that, subject to relevant eligibility criteria being met and assessment of its overall impact, it will be in a position to participate in the HISP, although it is uncertain at this time what level of contribution, if any, participation in the scheme will provide to earnings performance in subsequent periods. The Company will continue to monitor and report any significant progress on this aspect of its operations.

Air conditioning

Orders for air conditioners remained steady throughout the year despite the continued slowing of activity from within the building and construction sector, the on-going impact of the global economic crisis and price competition from major retailers. The availability of new models (including an inverter range), all of which comply with the new energy efficiency standards prevailing in the Company's core market of Queensland, and the development of new markets provided the foundation for a progressive improvement in the contribution to overall performance particularly in the second half of the financial year.

Energy saving heat storage technology

Cool or Cosy has now substantially completed the development stages required for it to proceed with the commercial introduction of solar hot water systems utilising its proprietary technology.

The Company:

- now has 12 systems included in the Register of hot water heaters each having been allocated market competitive levels of Renewable Energy Certificates ("REC's") by the Office of Renewable Energy Regulator ("ORER") following a detailed independent audit of these units;
- continues to prosecute a suite of patents which encapsulate the proprietary technology with the intention that patent protection be afforded in those significant economies yielding the greatest commercial potential; and
- has identified and is progressing on-going discussions with a number of large scale businesses to assist in the commercialisation of the solar hot water systems developed utilising its proprietary technology; these discussions are expected to be finalised and a commercial outcome achieved by the end of the first half of the 2011 financial year.

While the Company had previously anticipated the release of its products in the 2010 financial year, a series of factors contributed to the delay:

- the impact of the suspension and closure of the HIP and related schemes;
- deliberate enhancements to the development process yielding additional proprietary benefits; and
- changes in strategic direction regarding the intended commercialisation initiative.

The RECs allocated to the range of Cool or Cosy systems together with the innovative features of these systems will render the product market competitive with other solar hot water systems including those manufactured and/or distributed by owners of leading brands of existing products.

Based on available information derived from extensive product research and development efforts undertaken by the Company and the recent allocation of REC's by ORER one of the Cool or Cosy system configurations is:

- not currently available on the market; and
- possesses superior energy efficiency performance outcomes and attracts a greater number of RECs compared to existing competitor products of a similar class and capacity presently available to consumers.

Cool or Cosy considers:

- this will create the commercial opportunity of becoming an innovation leader in the relevant class of system capacity in the solar hot water heater market; and
- that several unique product attributes and selling propositions attaching to each of the developed systems, and the innovative nature of its proprietary technology in respect of which patents are being actively sought, will provide a sustainable competitive advantage in the solar hot water market.

These unique product attributes have been designed by Cool or Cosy to overcome several practical issues experienced by existing products on the market today including but not limited to scaling, overheating and weather damage to solar collectors, and are considered by the Company to be novel and innovative in a global context.

CORPORATE GOVERNANCE

Cool or Cosy:

- continues its adherence to the Company's established corporate governance framework consistent with the *ASX Principles of Good Corporate Governance and Best Practice Recommendations* (2nd edition)("ASX Principles & Recommendations"); and
- intends to make an early transition, commencing from the 2011 financial year, to changes to the ASX Principles & Recommendations introduced by the ASX Corporate Governance Council in June 2010.

Copies of the documents underlying theCool or Cosy Corporate Governance Framework are publicly accessible on the Company's website at www.coolorcosy.com.au.

OUR PEOPLE

Cool or Cosy's people provide the Company with the competitive advantage required to satisfy the needs of its customers, shareholders and other stakeholders. The Board would like to record its appreciation of the on-going dedication and commitment of our employees during the year especially in light of the prevailing difficult trading and operating conditions experienced and significant organisational changes implemented in response to these circumstances.

Cool or Cosy will continue to promote the fostering of a supportive, family oriented and co-operative work place within a performance based environment where innovation, initiative and productivity are encouraged and rewarded.

Human resource policies, practices and procedures are in place each of which are designed to attract, engage and retain the highest possible calibre of employees in the Company's prevailing circumstances.

COMMITMENT TO OCCUPATIONAL, HEALTH, SAFETY & ENVIRONMENT

The year in review saw continuing focus and commitment to health and safety through a group wide commitment to maintaining the highest occupational health and safety standards for the benefit of its employees, contractors and visitors.
During this year, Cool or Cosy:

- continued its strong commitment to the prevention of injuries and harm in the workplace with positive results achieved through the continued success of its comprehensive workplace health and safety systems and policies;
- participated in voluntary, independent assessment by Workplace Health and Safety Queensland (WHSQ) of the effectiveness of the Company's health and safety management systems under the WHSQ's Medium Sized Business Initiative.

Information relating to occupational health and safety issues continues to be regularly considered by the Board which makes recommendations, where necessary, for the improvement in workplace systems and practices.

The Company also has a comprehensive employment practices manual which confirms minimum standards of behaviour of employees, contractors, directors and officers while reinforcing the importance of compliance with applicable laws and regulations including those relating to occupational health and safety obligations.

Cool or Cosy is also committed to the minimisation of the consumption of resources at all of its facilities and in its manufacturing operations.

To this end, the company has an established Environment Policy which may be found on its website at www.coolorcosy.com.au.

PRIVACY

Cool or Cosy has developed a Privacy Disclosure Statement consistent with the National Privacy Principles incorporated in prevailing privacy laws dealing with the collection, use, disclosure, security, access and accuracy of information available to it during the course of its business operations. The Company has appointed a designated Privacy Officer to deal with queries regarding the application of the policy. A copy of the Cool or Cosy Privacy Disclosure Statement is detailed on the Company website at www.coolorcosy.com.au.

FUTURE DIRECTION & BUSINESS OUTLOOK

The future direction and business outlook for Cool or Cosy is detailed within the Review of Operations and under the heading *Future Direction & Business Outlook* each contained within the Directors' Report included in this year's Annual Report.

In summary, Cool or Cosy will focus on the:

- continued realisation of surplus assets arising from the closure of the Home Insulation Program;
- assessment of the possible impact of the proposed implementation phase of the Home Insulation Safety Program;
- possible alternative uses of existing plant and equipment as a means of substitution for lost insulation revenue and diversifying its revenue streams;
- identification of available opportunities and the pursuit of strategic initiatives consistent with the long term growth of the business and the delivery of tangible and sustainable value for shareholders; and
- satisfactory conclusion of on-going discussions and arrangements with interested parties regarding the intended commercialisation of solar hot water systems incorporating proprietary technology developed by the Company.

  Revenues generated from the intended introduction to market of solar hot water product utilising the proprietary technology developed by Cool or Cosy will start to offset the significant amount of capital expenditure on the project reflected in the Cash Flow Statement and further improve the overall cash position of the Company in subsequent periods.

The Board and Management:

- are actively engaged in the pursuit of these objectives with a view to achieving outcomes which:
    - seek to strengthen the financial position of the consolidated entity including proposed arrangements to restructure convertible note interest payment obligations;
    - are consistent with the growth of the business in the long term interests of shareholders; and
    - deliver the best possible results in the prevailing circumstances;
- remain committed to keeping shareholders fully informed of developments impacting upon its operating activities and the progress being made against the identified strategic initiatives.

Based on information available to the Board and Management at the date of this report, it is considered that there exists reasonable prospects for Cool or Cosy to be in a position to obtain the consent of convertible note holders to vary the terms of the existing interest payment obligations in a manner which will allow the Company to continue to operate as a going concern and implement its other identified strategies. The existing convertible notes are due for repayment commencing in the first quarter of the 2013 financial year. In the event this restructuring proposal is not accepted by convertible note holders, the Board will need to re-assess the financial position of the Company and will keep shareholders and the market fully informed of any on-going developments with respect to this and other strategic initiatives.

David Hoff
Chairman

Robert Nicholls
Managing Director

Brisbane, 29 September 2010

DIRECTORS' REPORT

Your directors present their report on the parent entity and its subsidiaries for the financial year ended 30 June 2010.

DIRECTORS

The names of directors in office at any time during or since the financial year are:

David Hoff
Non-Executive Director
(appointed: 19 September 2007) Chairman (appointed: 30 November 2007)

Robert Nicholls
Non-Executive Director
(appointed: 1 June 2007) Managing Director (appointed: 8 July 2008)

John Smith
Non-Executive Director (appointed: 24 October 2008)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

INFORMATION ON DIRECTORS

Details of the directors' qualifications, experience and responsibilities together with details of other directorships of other listed public companies in the preceding three (3) years are detailed below:

David Hoff (61)
(Securities held or controlled as at the date of this report: 700,000 shares)
C.P.A
Non-Executive Director (appointed 19 September 2007)
Chairman (appointed 30 November 2007)

David Hoff joined the Cool or Cosy Board as a Non-Executive Director on 19 September 2007 and was appointed Chairman on 30 November 2007. He is a member of the Cool or Cosy Audit Committee.

Between May 1997 and September 2009, David was Chief Executive Officer and Managing Director (from November 2000) of PPK Group Limited (ASX Code: PPK), a substantial shareholder of Cool or Cosy. Mr Hoff is also a Non-Executive Director and Chairman of Frigrite Limited (ASX Code: FRR).

David has had several years experience in financial accounting positions within a multinational corporation in the mining industry followed by a position as Chief Financial Officer of a publicly listed Australian real estate development company. David has over 27 years experience in the packaging industry, in general management and managing director roles, gained with multinational corporations based in the United States of America, Europe, and with a global packaging company in the Asia region.

Directorships of other listed entities in last three years:

Frigrite Limited:	Non-Executive Director (appointed: 23 July 2008) Chairman (appointed: 12 December 2008)
PPK Group Limited:	Managing Director (appointed: 23 November 2000; resigned: 7 September 2009)

Robert Nicholls (41)
(Securities held or controlled as at the date of this report : 440,000 shares; 1,300,000 options)
MBA (Distinction), LL.B (Hons), Grad Dip Leg Prac, Grad Dip CSP, FCIS, GAICD
Non-Executive Director (appointed 1 June 2007)
Managing Director (appointed 8 July 2008)
Company Secretary (appointed 30 November 2007)
Robert was appointed a Non-Executive Director of Cool or Cosy Limited on 1 June 2007 and Company Secretary on 30 November 2007. He was appointed Managing Director on 8 July 2008.

Mr Nicholls has a Masters of Business Administration (With Distinction) from Charles Sturt University, Bachelor of Laws (Honours) Degree from the University of Technology, Sydney, Graduate Diploma in Legal Practice and Graduate Diploma in Company Secretarial Practice. He is a Fellow of The Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia and a graduate of the Australian Institute of Company Directors.

Robert has extensive corporate management experience at senior executive levels within private and public companies across a diverse range of industries. He also continues to perform the role of Company Secretary for PPK Group Limited (ASX Code: PPK) a substantial shareholder of Cool or Cosy.
Directorships of other listed entities in last three years: Nil

John Smith (55)
(Securities held or controlled as at the date of this report: 200,000 shares)
MBA, B.Com.,FCPA
Non-Executive, Independent Director (appointed: 24 October 2008)
John Smith was appointed as a Non-Executive Director by the Board on 24 October 2008. His appointment was subsequently ratified by shareholders at the 2008 Annual General Meeting convened on 28 November 2008.
Mr Smith is Chairman of the Cool or Cosy Audit Committee.

John has over 25 years experience in various general management and Chief Financial Officer roles within multinational corporations based in Australia, United States and South East Asia.
He holds a Bachelor of Commerce (Accounting) degree from the University of New South Wales and Master of Business Administration from the University of New England. Mr Smith has been a Certified Practising Accountant since 1981.

John has extensive corporate management experience and a detailed understanding of accounting, finance, corporate governance and risk management developed through various roles with the Eastman Kodak Group.
Directorships of other listed entities in last three years: Nil

COMPANY SECRETARY

The Company Secretary in office at the end of the financial year was Mr Robert Nicholls.

INFORMATION ON COMPANY SECRETARY

Details of the qualifications and experience of the Company Secretary are detailed in the Information on Directors section of this Report.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were the:

- sale and installation of air-conditioning products to the residential, wholesale and construction markets; and
- manufacture and installation of environmentally friendly insulation products.

There were no significant changes in the nature of the consolidated entity's principal activities during the financial year.

OPERATING RESULTS

The consolidated profit after tax of the consolidated entity for the period ended 30 June 2010 amounted to $1,178,834 (2009: loss of $1,986,554).

DIVIDENDS PAID OR RECOMMENDED

There were no dividends paid or recommended for payment during the year.

REVIEW OF OPERATIONS

Information on the entity's operations, financial position, business strategies and prospects for the future is detailed below and further within the Chairman and Managing Director's Overview included in the Annual Report accompanying these Financial Statements.

Insulation

Sales of the Company's cellulose fibre insulation product provided a significant contribution to the overall performance of the business throughout the 2010 financial year and, in particular, the first half year due to the introduction by the Federal Government of the main phase of the Home Insulation Program (HIP) which commenced on 1 July 2009.

However, commencing in November 2009, the Federal Government proceeded to introduce a series of unexpected, at times abrupt and progressive changes to the HIP including:

- a reduction in the rebate paid for insulation under the program, suspension of foil insulation and the establishment of new competency requirements for installers;
- discontinuation of the HIP on and with effect from 19 February 2010;
- proposed introduction of a new program called the Renewable Energy Bonus Scheme (REBS) announced on 19 February 2010 with intention for the REBS to commence on or by 1 June 2010;
- discontinuation of the insulation component of the REBS on 22 April 2010 and announcement on the same day of the introduction of the:
  - Home Insulation Safety Program ("HISP");
  - Foil Insulation Safety Program ("FISP"); and
  - Insulation Industry Assistance Package.

The detailed changes implemented by the Federal Government adversely impacted the performance of the Company, particularly in the second half of the 2010 financial year, through the combined impact of:

- a substantial reduction in the demand for Cool or Cosy cellulose fibre insulation products; this resulted in a significant loss of insulation revenue arising from the consequent:
  - reduction in the value or cancellation of a significant number of retail and wholesale insulation contracts existing at the time of the various Government announcements;
  - erosion of the significant wholesale insulation business which had been established by the Company from the inception of the HIP; and
  - inability of a significant number of households to afford insulation on the basis of a diminished capacity to meet the costs associated with the purchase and installation of the product brought about by the reduction and subsequent removal of applicable rebates under the various schemes.
- creating prolonged periods of uncertainty regarding the commencement, terms and operation of various iterations of the HIP and related schemes; this had the effect of obfuscating opportunities for cost containment, avoidance and savings within its insulation business and deprived the Company at various times of the opportunity to plan for the pursuit of alternative strategic initiatives;
- redundancy payments amounting to approximately $85k.

The Company:

- continues to await the formal release by the Federal Government of the terms and conditions of the HISP and FISP;
- has formally recorded its expression of interest with the Federal Government's appointed contractor to participate in the HISP, subject to an assessment of the prevailing terms and conditions of the scheme; and
- received a total of $55,207 under the Insulation Industry Assistance Package during the year in review.

Cool or Cosy anticipates that, subject to relevant eligibility criteria being met and assessment of its overall impact, it will be in a position to participate in the HISP, although it is uncertain at this time what level of contribution, if any, participation in the scheme will provide to earnings performance in subsequent periods. The Company will continue to monitor and report any significant progress on this aspect of its operations.

Further details on the Insulation Program and its likely impact are outlined in this Report under the heading *Significant Changes in the State of Affairs*.

Air conditioning

Orders for air conditioners remained steady throughout the year despite the continued slowing of activity from within the building and construction sector, the on-going impact of the global economic crisis and price competition from major retailers. The availability of new models (including an inverter range), all of which comply with the new energy efficiency standards prevailing in the Company's core market of Queensland, and the development of new markets provided the foundation for a progressive improvement in the contribution to overall performance particularly in the second half of the financial year.

Energy saving heat storage technology

Cool or Cosy has now substantially completed the development stages required for it to proceed with the commercial introduction of solar hot water systems utilising its proprietary technology.

The Company:

- now has 12 systems included in the Register of hot water heaters each having been allocated market competitive levels of Renewable Energy Certificates ("REC's") by the Office of Renewable Energy Regulator ("ORER")(see further http://www.orer.gov.au/swh/register.html) following a detailed independent audit of these units;
- continues to prosecute a suite of patents which encapsulate the proprietary technology with the intention that patent protection be afforded in those significant economies yielding the greatest commercial potential; and
- has identified and is progressing on-going discussions with a number of large scale businesses to assist in the commercialisation of the solar hot water systems developed utilising its proprietary technology; these discussions are expected to be finalised and a commercial outcome achieved by the end of the first half of the 2011 financial year.

While the Company had previously anticipated the release of its products in the 2010 financial year, a series of factors contributed to the delay:

- the impact of the suspension and closure of the HIP and related schemes;
- deliberate enhancements to the development process yielding additional proprietary benefits; and
- changes in strategic direction regarding the intended commercialisation initiative.

The RECs allocated to the range of Cool or Cosy systems together with the innovative features of these systems will render the product market competitive with other solar hot water systems including those manufactured and/or distributed by owners of leading brands of existing products.

Based on available information derived from extensive product research and development efforts undertaken by the Company and the recent allocation of REC's by ORER one of the Cool or Cosy system configurations is:

- not currently available on the market; and
- possesses superior energy efficiency performance outcomes and attracts a greater number of RECs compared to existing competitor products of a similar class and capacity presently available to consumers.

Cool or Cosy considers:

- this will create the commercial opportunity of becoming an innovation leader in the relevant class of system capacity in the solar hot water heater market; and
- that several unique product attributes and selling propositions attaching to each of the developed systems, and the innovative nature of its proprietary technology in respect of which patents are being actively sought, will provide a sustainable competitive advantage in the solar hot water market.

These unique product attributes have been designed by Cool or Cosy to overcome several practical issues experienced by existing products on the market today including but not limited to scaling, overheating and weather damage to solar collectors, and are considered by the Company to be novel and innovative in a global context.

Further information on the progress of these efforts is detailed later in this Report under the heading *Future Direction & Business Outlook*.

Future Direction & Business Outlook

The future direction and business outlook for Cool or Cosy is detailed within the Review of Operations contained within the Directors' Report and the Chairman & Managing Director's Overview each included in this year's Annual Report.

In summary, Cool or Cosy will focus on the:

- continued realisation of surplus assets arising from the closure of the Home Insulation Program;
- assessment of the possible impact of the proposed implementation phase of the Home Insulation Safety Program;
- possible alternative uses of existing plant and equipment as a means of substitution for lost insulation revenue and diversifying its revenue streams;
- identification of available opportunities and the pursuit of strategic initiatives consistent with the long term growth of the business and the delivery of tangible and sustainable value for shareholders; and
- satisfactory conclusion of on-going discussions and arrangements with interested parties regarding the intended commercialisation of solar hot water systems incorporating proprietary technology developed by the Company.

  Revenues generated from the intended introduction to market of solar hot water product utilising the proprietary technology developed by Cool or Cosy will start to offset the significant amount of capital expenditure on the project reflected in the Cash Flow Statement and further improve the overall cash position of the Company in subsequent periods.

DIVIDENDS

After considering short-term operational requirements and long–term strategic objectives the Board has determined not to pay any dividend in respect of this financial year.

FINANCIAL POSITION

The net assets of the consolidated entity have increased by $1,102,323 (2009: minus $1,132,041) from 30 June 2009.

The main changes in the financial position have resulted from the:

- increase of $259,760 in trade receivables which includes amounts due and payable by the Federal Government under the auspices of the Home Insulation Program;
- decrease of $298,157 in trade creditors;
- reduction of $183,325 in interest bearing liabilities;
- increase of $751,646 in the value of intangible assets comprising the development costs associated with the company's energy saving heat storage technology; and
- reduction in the value of property, plant and equipment of $145,406 reflecting movements in the sale of Western Australian assets, depreciation of remaining property, plant and equipment and the absence of asset purchases during the year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The closure of the Home Insulation Program by the Federal Government:

- has resulted in a substantial loss of revenue for the Company's insulation products;
- will continue to have an adverse impact on insulation revenue in future periods due to a number of factors including, but not limited to the:
  - non-existence of available rebates to enable households to afford insulation;
  - extent of penetration achieved under the HIP, each of which is expected to significantly reduce demand for insulation products.

While the terms, conditions and possible benefits arising from the proposed implementation of the Home Insulation Safety Program (HISP) are not known at this time, and a market for the Company's insulation product continues to exist, it is considered highly unlikely that the HISP and the remaining insulation market will produce the same underlying benefits in terms of profitability to the Company than experienced during the 2010 financial year under the HIP.

The Cool or Cosy Board and Management:

- are actively engaged in the pursuit of the objectives identified within this Directors' Report and, in particular, those detailed under the heading *Future Direction & Business Outlook* with a view to achieving outcomes which:
  - seek to strengthen the financial position of the consolidated entity including proposed arrangements to restructure convertible note interest payment obligations;
  - are consistent with the growth of the business in the long term interests of shareholders; and
  - deliver the best possible results in the prevailing circumstances;
- remain committed to keeping shareholders fully informed of developments impacting upon its operating activities and the progress being made against the identified strategic initiatives.

There were no other significant changes in the state of affairs of the Company during or since the reporting period.

Based on information available to the Board and Management at the date of this report, it is considered that there exists reasonable prospects for Cool or

Cosy to be in a position to obtain the consent of convertible note holders to vary the terms of the existing interest payment obligations in a manner which will allow the Company to continue to operate as a going concern and implement its other identified strategies. The existing convertible notes are due for repayment commencing in the first quarter of the 2013 financial year. In the event this restructuring proposal is not accepted by convertible note holders, the Board will need to re-assess the financial position of the Company and will keep shareholders and the market fully informed of any on-going developments with respect to this and other strategic initiatives.

AFTER BALANCE DATE EVENTS

No other matter or circumstance has arisen since the end of the financial year which is not otherwise dealt with in this report or in the Consolidated Financial Statements that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

FUTURE DEVELOPMENTS

The likely developments in the operations of the consolidated entity and the expected results of those operations in financial years subsequent to the year ended 30 June 2010 are included in the Chairman and Managing Director's Review detailed in the 2010 Cool or Cosy Annual Report and in the Review of Operations of this Directors' Report.

ENVIRONMENTAL ISSUES

Cool or Cosy is committed to the:

- minimisation of the consumption of resources at all of its facilities and in its manufacturing operations;
- the recycling of paper waste materials and re-use of recycled content in the form of environmentally-friendly cellulose fibre products;
- manufacture, sale and marketing of environmentally friendly products and services and, in the context of its air conditioning business, based on established energy efficiency requirements; and
- research and development of environmentally friendly products.

The Company has otherwise complied with all government legislation and regulations with respect to disposal of waste and other materials and has not received any notices of breach of environmental laws and/or regulations.

Cool or Cosy's approach to environmental sustainability is outlined in its Environment Policy at www.coolorcosy.com.au.

PROCEEDINGS ON BEHALF OF COMPANY

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

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

REMUNERATION REPORT

Remuneration Report - Audited

This report details the nature and amount of remuneration, including prescribed details under the *Corporations Regulations 2001* of each director and other *key management personnel* for the consolidated entity and the company and:

- *relevant group executives of the consolidated entity; and*
- *company executives*

(as each these italicised terms are defined in the *Corporations Act 2001*) receiving the highest remuneration for the year ended 30 June 2010.

Remuneration Policy

The remuneration policy of the Company has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific short-term incentives based on key performance areas affecting the consolidated entity's financial results.

The Cool or Cosy Board believes the remuneration policy to be appropriate and effective in its ability to attract, retain and motivate directors and executives of the highest possible quality and standard in the circumstances of the organisation to manage the affairs of the consolidated entity, as well as, create goal congruence between directors, executives and shareholders.

The remuneration policy, setting the terms and conditions for directors, executives and management was developed by the Board. The policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated entity is detailed in the paragraphs which follow.

Remuneration of non-executive directors is determined by the Board from the maximum amount available for distribution to the non-executive directors as approved by shareholders.

In determining the appropriate level of directors' fees, data from surveys undertaken of other public companies similar in size or market section to the Company is taken into account.

Non-executive directors are remunerated by means of cash benefits comprising directors' fees. They are not entitled to participate in performance based remuneration practices unless approved by shareholders. The Company will not generally use options as a means of remuneration for non-executive directors and will continue to remunerate those directors by means of cash benefits.

Cool or Cosy does not provide retirement benefits for its non-executive directors.

Executive directors do not receive director's fees.

The Board of Directors is responsible for approving remuneration policies and packages applicable to senior executives of the Company. The broad remuneration policy is to ensure that the remuneration package properly reflects the person's duties and responsibilities and that the remuneration is competitive in attracting, retaining and motivating people of the highest possible quality and standard having regard to the prevailing circumstances of the Company.

A review of the compensation arrangements for executive directors and senior executives is conducted by the full Board at a duly constituted Directors meeting. The Board conducts its review annually based on established criteria which includes:

- the individual's performance;
- reference to market data for broadly comparable positions or skill sets in similar organisations or industry;
- the performance of the company or consolidated entity during the relevant period; and
- the broad remuneration policy of the consolidated entity.

Senior executives and executive directors may receive bonuses based on the achievement of specific goals of the consolidated entity.

An executive incentive scheme approved by shareholders is in place which provides the board with the discretion to provide loans to eligible employees for the purpose of acquiring Company shares.

The Board exercises its discretion under the scheme in a manner consistent with the broad remuneration policy objectives of the consolidated entity. The grant of options to executives is linked to significant performance hurdles including the exercise price of options being subject to material improvement in Company performance (measured by its share price) during a restricted exercise period.

Company Performance, Shareholder Wealth and Directors and Executives Remuneration

The Remuneration Policy has been designed to achieve the goal congruence between shareholders, directors and executives.
The two methods currently employed in achieving this aim are:

- a performance based bonus for executives based on key performance indicators (KPI's) which include a combination of short-term financial and non-financial indicators; and/or
- the issue of loans to executives to purchase company shares as a means of long-term incentive to encourage the alignment of personal and shareholder interests.

The measures are chosen as they directly align the individual's reward to the KPI's of the consolidated entity and to its strategy and performance.

The Company considers this policy is an effective means of maintaining shareholder wealth and retaining quality employees committed to the long term objectives of the Company.

Eligible executives may be entitled to receive incentive payments of between 10% and up to 15% of their base salary during each full year of employment in which they achieve pre-determined levels of productivity, goals and targets in consultation with the Board and Managing Director.

A significant proportion of eligible bonus payments to *key management personnel, group executives* and *company executives* are linked to the earnings of either the:

- consolidated entity; or
- individual company in which the company executive performs his or her primary duties and responsibilities.

During the year, a bonus accrued to Prestige Corporate Services Pty Ltd, a company related to Managing Director, Robert Nicholls, relating to achievement of pre-determined performance conditions pertaining to the earnings of the consolidated entity in the context of the current reporting period. Payment of this bonus occurred in the 2011 financial year.

No other bonus payments have been made to *key management personnel* for the consolidated entity and the Company and:

- *group executives* of the consolidated entity; and
- *company* executives

in respect of objectives relating to the earnings of the company or consolidated entity during the year or in respect of the preceding four (4) years.

The remaining proportion of eligible bonus payments relate to non-financial performance measures which may include, for example, people, safety, strategy and risk measures having overall benefits for the consolidated entity. There were no bonuses paid to executives in respect of the attainment of predetermined non-financial performance indicators during the reporting period.

Consequences of company performance on shareholder wealth

The following table outlines the impact of Company performance on shareholder wealth:

	2010	2009	2008	2007	2006
Earnings per share (cents)	1.82	(2.91)	(5.17)	(8.16)	0.33
Full year dividend per ordinary share (cents)	-	-	-	-	0.36
Year-end share price (cents)	6.5	6.5	6.7	8.7	10.5
Shareholder return (annual)	0%	(2.98%)	(22.99%)	(17.14%)	(65.53%)

The above table shows the annual returns to shareholders calculated to include the difference in percentage terms between the dividend yield for the year (based on the average share price for the year) and changes in the price at which shares in the Company are traded between the beginning and the end of the year.

Bonuses are paid in a manner which is commensurate with the performance of the Company and the attainment by the relevant executive of key performance targets designed to promote the creation of long term value and growth for the Company and its shareholders.

The information provided in the table and this report highlights that the payment of bonuses to executives is closely aligned to Company performance.

In respect of the 2010 financial year, for example, a bonus accrued to Prestige Corporate Services Pty Ltd, a company related to Managing Director, Robert Nicholls, relating to achievement of pre-determined performance conditions pertaining to the earnings of the consolidated entity in the context of the current reporting period. In contrast, there were no bonuses accrued or paid to directors, *company executives or relevant group executives* in respect of previous financial years due to the fact that the required performance targets linked to incentive payments were not achieved during these periods.

Details of remuneration for the year ended 30 June 2010

Directors' and executive officers' remuneration

Details of the nature and amount of each major element of compensation of each director, *company executive and relevant group executive* who receive the highest remuneration for the year ended 30 June 2010 are included in the table on the following page of this report:

	SHORT TERM INCENTIVES			POST EMPLOYMENT		LONG TERM INCENTIVES/BENEFITS			
	Salary& Fees ($)	Short Term Incentive Cash Bonus ($)	Non-Cash Benefits ($)	Super-annuation ($)	Long Service Leave	Termination Benefits ($)	Share based payments ($)	Total ($)	Proportion of Remuneration Performance Related (%)
Directors									
Non –Executive									
David Hoff	45,000	-	-	-	-	-	-	45,000	-
John Smith	30,000	-	-	-	-	-	-	30,000	-
Executive									
Robert Nicholls	278,300	27,830**	-	-	-	-	-	306,130	10%
Total Directors								381,130	
Company Executives									
John Wilson*	152,836	15,000**	-	-	-	-	-	167,836	8.9%
Total Company Executives								167,836	

* Mr Wilson was made redundant on 1 June 2010.

** These bonus payments were accrued in the 2010 financial year but paid to the specified executives in August 2010.

The named company executives held the following position during the period:

Company Executive	Position
Robert Nicholls	Managing Director
John Wilson	Group General Manager

There were no other *company executives or relevant group executives* during the year.

The names and positions held by *Key Management Personnel* (as defined by the *Corporations Act 2001* and Australian Accounting Standards) of the consolidated entity during the year are as follows:

Key Personnel Management	Position
David Hoff	Non-Executive Director, Chairman
Robert Nicholls	Managing Director
John Smith	Non-Executive Director
John Wilson	Group General Manager

2009

	SHORT TERM INCENTIVES			POST EMPLOYMENT		LONG TERM INCENTIVES/BENEFITS			
	Salary& Fees ($)	Short Term Incentive Cash Bonus ($)	Non-Cash Benefits ($)	Super-annuation ($)	Long Service Leave	Termination Benefits ($)	Share based payments ($)	Total ($)	Proportion of Remuneration Performance Related (%)
Directors									
Non –Executive									
David Hoff	45,000	-	-	-	-	-	-	45,000	-
John Smith*	20,000	-	-	-	-	-	-	20,000	-
Ronald Sanders**	-	-	-	-	-	-	-	-	-
Executive									
Robert Nicholls	281,672	-	-	-	-	-	-	281,672	-
Total Directors								346,672	
Company Executives									
John Wilson	159,421	-	-	-	-	-	-	159,421	-
Bernard Flaherty***	46,961	-	-	4,226	-	15,768	-	66,955	-
Total Company Executives								226,376	
Relevant Group Executive									
Victor Fong+	67,886	-	-	6,110	-	5,801	-	79,797	-
Total Relevant Group Executives:	67,886	-	-	6,110	-	5,801	-	79,797	-

* Appointed on 24 October 2008.

** Resigned on 28 November 2008. An amount of $225,000 was included in the remuneration for this director in the 2008 financial year being the sum payable by way of notice under a Consultancy Agreement. No further amounts were payable to Mr Sanders in respect of his duties as a non-executive director between the period 8 July 2009 to 28 November 2009 and, therefore, do not appear in this year's comparative report.

*** Ceased on 21 November 2008.

\+ Resigned 12 February 2009.

The named *company executives* and relevant *group executive* held the following positions during the period:

Company Executives & Relevant Group Executive	Position
Robert Nicholls	Managing Director
Bernard Flaherty	Chief Financial Officer (to 21 November 2008)
John Wilson	Group General Manager
Victor Fong	State Operations Manager –WA (to 12 February 2009)

There were no other *company executives* or *relevant group executives* during the year.

The names and positions held by Key Management Personnel (as defined by the Corporations Act 2001 and Australian Accounting Standards) of the consolidated entity during the year are as follows:

Key Personnel Management	Position
David Hoff	Non-Executive Director Chairman
Robert Nicholls	Managing Director (from 8 July 2008)
John Smith	Non-Executive Director
Ronald Sanders	Managing Director (ceased 7 July 2008) Non-Executive Director (appointed 7 July 2008; resigned 30 November 2008)
John Wilson	Group General Manager

PERFORMANCE INCOME AS A PROPORTION OF TOTAL REMUNERATION

Performance based bonuses are based on proportions of salary and not on set monetary amounts. This may result in the amounts of remuneration related to performance varying between individuals. The Board sets these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to growth and profitability of the consolidated entity.

Analysis of bonuses included in remuneration

In respect of the 2010 financial year bonuses accrued to:

- Prestige Corporate Services Pty Ltd, a company related to Managing Director, Robert Nicholls; and
- John Wilson,

each relating to achievement of pre-determined performance conditions included as part of remuneration of these executives pertaining to the earnings of the consolidated entity in the context of the current reporting period.

These bonuses were paid to the specified executives in August 2010.

Therewere no other short-term incentive cash bonuses awarded as compensation to, or vesting in,any director, *company executive* and *relevant group executives* during the year.

Analysis of prospective bonus payments for future years

The vesting profile of the short-term incentive cash bonus which may have vested at the date of this report, or be payable in future financial years if the executive meets pre-determined service and performance criteria awarded as compensation to each director, *company executive* and *relevant group executive* are detailed below:

	Short term incentive cash bonus Value yet to vest or which may vest		
	Financial years in which bonus vests or may vest	**Minimum**	**Maximum**
Company Executives			
Robert Nicholls	2011	28,637	42,956

The performance conditions included in the determination of the prospective bonus which may vest in future periods to the specified company executive relates to the achievement of pre-determined target earnings performance by the Company. No bonuses will be paid in future financial years unless these pre-determined targets and objectives are achieved by the specified executive.

These performance conditions were selected to align the potential payment of bonuses to the creation of shareholder value and growth of the Company's operations. Achievement of these performance conditions are assessed by means of specifically defined and pre-determined targets. The main reason for applying profit measures as the method of assessment is that it represents an accepted means of generating shareholder value and evidencing Company earnings growth.

Options issued as part of remuneration for the year ended 30 June 2010

Options are issued to executives as part of their remuneration and to encourage goal alignment between these executives, directors and shareholders.

The following options were issued to group executives during the year:

Group Executive	Grant Date	Expiry Date	Exercise Price Per Option	Number of Options
Robert Nicholls	17 December 2009	17 December 2014	$0.15	300,000

EMPLOYMENT CONTRACTS

During the reporting period, the remuneration and other terms of employment of the Managing Director, Mr Robert Nicholls, were formalised in a Consultancy Agreement. The key provisions of this agreement are as follows:

- Term of Agreement – initial period of 4 years commencing 8 July 2008 with an option to the Company to extend the agreement for a further 2 years at the end of the initial period.
- Base Consultancy Fee inclusive of superannuation and motor vehicle expenses to be reviewed annually by the Board of Directors. In addition, Mr Nicholls will perform company secretarial services for the consolidated entity and will receive an annual fee for these services.
- Payment of a termination benefit on early termination by the employer, other than in specified circumstances based on misconduct or non-performance, equal to the prevailing remuneration amount for a 12 month period.
- A notice period of 6 months in respect of early termination of the agreement for non-performance or generally at the election of Mr Nicholls.
- Immediate termination by the Company for specified misconduct.
- Payment of a performance related cash bonus based on the consolidated entity achieving specified performance targets.
- A grant of options to be approved by shareholders at each Annual General Meeting of the Company for the term of the Agreement.

A performance review was undertaken in August 2010 regarding the performance of Mr Nicholls in respect of the year ended 30 June 2010.

Written agreements are also in place with other specified executives which generally provide for the following general terms and conditions of employment for these executives:

- Payment of a base salary and statutory entitlements;
- Payment of a performance related cash bonus based on the achievement of pre-determined targets and objectives;
- Payment of reasonable expenses properly incurred in the due performance of the duties and responsibilities of the executive's position;
- A notice period of up to 4 weeks in respect of termination; and
- Immediate termination by the Company for misconduct.

OPTIONS

There were 12,225,000 options outstanding as at the date of this report.

These consisted of:

- 1,500,000 executive and employee share options with exercise prices ranging from $0.15 to $0.20 per option; and
- 10,725,000 share options issued to sophisticated and professional investors as consideration for convertible note and trade facility funding arrangements.

At the date of this report, the unissued ordinary shares of Cool or Cosy Limited under option are as follows:

Grant Date	Expiry Date	Exercise Price	Number of Options
9 October 2007	9 October 2010	$0.15	1,250,000
11 October 2007	11 October 2010	$0.15	1,425,000
18 October 2007	18 October 2010	$0.15	500,000
22 October 2007	22 October 2010	$0.15	2,500,000
24 October 2007	24 October 2010	$0.20	100,000
31 October 2007	31 October 2010	$0.15	1,250,000
2 November 2007	2 November 2010	$0.15	500,000
17 December 2008	17 December 2011	$0.15	4,000,000
17 December 2008	17 December 2013	$0.15	300,000
17 December 2009	17 December 2014	$0.15	300,000
7 January 2009	7 January 2014	$0.15	100,000

DIRECTORS' INTERESTS

Particulars of Directors' interests in shares as at the date of this report are as follows:

	Ordinary Shares	Options
David Hoff	700,000	-
Robert Nicholls	440,000	1,300,000
John Smith	200,000	-

Shares

	Balance 01-Jul-09	*Granted as remuneration*	*On exercise of options*	*Net change other*	*Balance 30-June-10*
Directors					
David Hoff	700,000	-	-	-	700,000
Robert Nicholls	340,000	-	-	100,000	440,000
John Smith	100,000	-	-	100,000	200,000
Company Executives					
John Wilson	250,000	-	-	-	250,000
Total	**1,390,000**				**1,590,000**

Options

	Balance 01-Jul-09	*Granted as remuneration*	*Options lapsed*	*Net change other*	*Balance 30-Jun-10*
Directors					
David Hoff	-	-	-	-	-
Robert Nicholls	1,000,000	300,000	-	-	1,300,000
John Smith	-	-	-	-	-
Company Executives					
John Wilson	100,000	-	-	-	100,000
Total	**1,100,000**				**1,400,000**

MEETINGS OF DIRECTORS

During the financial year, meetings of directors (including audit committee meetings) were held.

Attendances were:	**DIRECTORS' MEETINGS**		**AUDIT COMMITTEE MEETINGS**	
	Number Eligible to attend	**Number Attended**	**Number Eligible to attend**	**Number Attended**
David Hoff	10	10	2	2
Robert Nicholls	10	10	-	2
John Smith	10	10	2	2

RISK & CONTROL COMPLIANCE STATEMENT

Under ASX Listing Rules and the ASX Corporate Government Council's Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Recommendations"), the Company is required to disclose in its Annual Report the extent of its compliance with the ASX Recommendations.

Throughout the reporting period, and as at the date of signing of this Directors 'Report, the Company was in compliance with a majority of the Recommendations in all material respects as more fully detailed in the Statement of Corporate Governance Practices on pages 23 to 32 of the Cool or Cosy 2010 Annual Report.

In accordance with the ASX Recommendations, the Board has:

- received and considered reports from management regarding the effectiveness of the Company's management of its material business risks; and
- received assurance from the chief executive officer and the person performing the chief financial officer function regarding the consolidated financial statements and the effective operation of risk management systems and internal controls in relation to financial reporting risks.

Material associates and joints ventures, which the Company does not control, are not dealt with for the purposes of this statement.

AUDIT COMMITTEE

The consolidated entity has an Audit Committee.

Details of the composition, role and Terms of Reference of the Cool or Cosy Audit Committee are contained in the Statement of Corporate Governance Practices accompanying this Directors' Report and are available on the Company's website at www.coolorcosy.com.au

The Audit Committee currently comprises the following Non-Executive Directors:

J G Smith (Chairman)
D A Hoff

The Company's lead signing and review External Audit Partner and Managing Director attend meetings of the Audit Committee by standing invitation.

DIRECTORS' AND AUDITOR'S INDEMNIFICATION

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The Company has paid premiums to insure all directors of the parent entity and officers of the consolidated entity against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The amount of the premium was $14,540 (inclusive of GST).

DIRECTORS' BENEFITS

Since 30 June 2009, no director has received or become entitled to receive a benefit because of a contract made by the consolidated entity, or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest except for:

- Mr Robert Nicholls is the principal of Prestige Corporate Services Pty Ltd which provided legal services to the consolidated entity in the ordinary course of business.

This statement excludes a benefit included in the aggregate amount of remuneration received or due and receivable by directors and shown in the Company's accounts, or the fixed salary of a full-time employee of the parent entity, controlled entity, or related body corporate.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services by Duncan DovicoChartered Accountants ("Duncan Dovico") during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Audit committee prior to commencement to ensure that they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided do not compromise the general principles relating to auditor independence as set out in APES 110 "Code of Ethics for Professional Accountants".

The following fees for non-audit services were paid to the external auditors during the year ended 30 June 2010:

Accounting & Taxation Advice $5,500.00

The Board has considered the performance of non-audit services during the year by Duncan Dovico while remaining the Company's auditor and is satisfied that the provision of those non-audit services during the relevant period by the firm was compatible with, and did not compromise, the general standard of independence for auditors imposed by the *Corporations Act* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 "Code of Ethics for Professional Accountants", as these services did not involve reviewing or auditing the auditor's own work, acting in management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

RSM Bird Cameron Partners resigned as independent external auditors of the Company with effect from 13 July 2009 and were replaced by Duncan Dovico.

Duncan Dovico performed the audit in respect of the years ended:

- 30 June 2009; and
- 30 June 2010.

AUDIT INDEPENDENCE

The lead auditor has provided the Auditor's Independence Declaration under section 307C of the *Corporations Act 2001* (Cth) for the year ended 30 June 2010 and a copy of this declaration is set out on page 67 and forms part of the Directors' Report.

Signed in accordance with a resolution of the Board of Directors.

David Hoff
Chairman

Brisbane, 29 September 2010

Cool or Cosy Limited ("Cool or Cosy" or "the Company") Approach to Corporate Governance and Responsibility

The Cool or Cosy Board of Directors is committed to the principles underpinning good corporate governance, applied in a manner which is most suited to Cool or Cosy, and to best addressing the directors' accountability to shareholders and other stakeholders. This is supported by an overriding organisation-wide commitment to the highest standards of legislative compliance and financial and ethical behaviour.

The Company continues to address directors' accountability to stakeholders in a manner consistent with the Company's individual circumstances enhanced through the introduction of publicly available policies and procedures which are designed to foster a culture of transparency in the way Cool or Cosy is directed and managed.

As a measure of its stated commitment to good corporate governance principles, the Board will continue to:

- review and continually improve its governance practices; and
- monitor developments in good corporate governance.

Report on Compliance with the ASX Best Practice Recommendations

Currently, the ASX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have followed the recommendations set by the ASX Corporate Governance Council ("ASX Recommendations") in the reporting period.

Listed companies must identify the ASX Recommendations that have not been followed and provide reasons for the company's decision. Where a recommendation has been followed for only part of the period the company must state the period during which it had been followed.

As detailed within this Statement of Corporate Governance Practices, Cool or Cosy considers its governance practices comply with each of the ASX Corporate Governance Principles and Recommendations ("ASX Principles & Recommendations") except for those detailed, and for the reasons outlined, in this Report.

For the reasons expressed within this Statement, Cool or Cosy has elected not to adopt ASX Recommendations 2.1, 2.2, 2.4, 4.2 and 8.1.

Cool or Cosy has posted copies of its relevant corporate governance policies and practices to its website consistent with the ASX Recommendations.

Cool or Cosy's Statement of Corporate Governance Practices and copies of its policies are available in the designated corporate governance area of its website at www.coolorcosy.com.au.

Transition to Revised Principles & Recommendations

On 30 June 2010, the ASX Corporate Governance Council released amendments to the 2nd edition of the ASX Principles and Recommendations in relation to diversity, remuneration, trading policies and briefings ("Revised ASX Principles & Recommendations").

The change in the reporting requirements for each of the amendments to the ASX Principles and Recommendations will:

- apply to Cool or Cosy in relation to the financial year ending 30 June 2012; and
- require disclosure by Cosy or Cosy in its 2012 Annual Report.

Cool or Cosy intends, however, to make an early transition to the Revised ASX Principles and Recommendations in the 2011 financial year.

Date of this Statement

This statement outlines the:

- ASX Principles & Recommendations (2nd edition) identified by the ASX as underlying good corporate governance; and
- main corporate governance practices of Cool or Cosy during the year to 30 June 2010, except where stated otherwise.

Principle 1: Lay solid foundations for management and oversight

Companies should establish and disclose the respective roles and responsibilities of board and management.

Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to senior executives and disclose those functions.

Recommendation 1.2: Disclose the process for evaluating the performance of senior executives.

Recommendation 1.3: Provide the information indicated in the Guide to reporting on Principle 1.

Formalisation of board and management functions.

The Board has formalised its roles and responsibilities into a Charter. The Board Charter clearly defines the matters that are reserved for the Board and those that the Board has delegated to management.

In summary, the responsibilities of the Cool or Cosy Board include:

- oversight of the Company, including its control and accountability systems;
- setting the Company's major goals including the strategies and financial objectives to be implemented by management;

- appointing, removing and controlling the Managing Director;
- ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer ("CFO") and/or Company Secretary;
- input into and final approval of management's development of corporate strategy and performance objectives;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- monitoring senior management's performance and implementation of strategy, and ensuring that appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approving and monitoring financial and other reporting; and
- corporate governance.

The Board has delegated responsibility to the Managing Director for:

- developing and implementing corporate strategies and making recommendations on significant corporate strategic initiatives;
- maintaining an effective risk management framework and keeping the Board and market fully informed about material risks;
- developing Cool or Cosy's annual budget, recommending it to the Board for approval and managing day-to-day operations within the budget;
- managing day-to-day operations in accordance with standards for social and ethical practices which have been set by the Board;
- making recommendations for the appointment of key management personnel, determining terms of appointment, evaluating performance, and developing and maintaining succession plans for key management roles; and
- approval of capital expenditure and business transactions within predetermined limits set by the Board.

Senior Executive Performance Evaluation

The Board is responsible for approving the performance objectives and measures for the Chief Executive Officer ("CEO") and assessing whether these objectives have been satisfied by the performance of the CEO during the relevant period and in accordance with agreed terms of engagement.

The CEO is responsible for approving the performance objectives and measures of other senior executives in consultation with the Board. The Board provides input into the evaluation of performance by senior executives against the established performance objectives.

The performance of senior executives is monitored by means of scrutiny by the Board of regular monthly reports provided by management regarding the group financial performance and forecasted results, presentations and operational reports, and the achievement of predetermined performance objectives. Evaluations of the performance of senior executives for the 2010 financial year were conducted in August 2010. These evaluations were undertaken in accordance with the process outlined in this Statement.

Board Charter

The roles and responsibilities of the Board and management are detailed in the Board Charter which is available within the designated corporate governance area of the Company website at www.coolorcosy.com.au.

Principle 2: Structure the board to add value.

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

Recommendation 2.1: A majority of the board should be independent directors.

Recommendation 2.2:The chair should be an independent director.

Recommendation 2.3:The roles of chair and chief executive officer should not be exercised by the same individual.

Recommendation 2.4:The board should establish a nomination committee.

Recommendation 2.5: Disclose the process for evaluating the performance of the board, its committees and individual directors

Recommendation 2.6: Provide the information included in the Guide to reporting on Principle 2

Independence

A Cool or Cosy director will be considered independent where he or she is:

- independent of management, that is, a non-executive director; and,
- free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of his or her unfettered and independent judgement.

Materiality is assessed on a case by case basis by reference to the director's individual circumstances rather than general materiality thresholds.

The Cool or Cosy Board has made its own assessment to determine the independence of each director on the Board. It is the Board's view that one of the current non-executive directors is independent, namely: Mr J G Smith.The remaining Non-executive Director, Mr D A Hoff, is not considered independent due to the existence of business or other relationships involving this director.

In view of the size of the Company and the nature of its activities, the Board considers that the current mix of skills, qualifications and experience on the Board is consistent with the long-term interests of the Company. The Board will continue to monitor the requirement for independent directors in the context of the Company's communicated long term objectives.

The Board has established criteria for assessing independence of its directors and these can be found in the corporate governance section of the Cool or Cosy website at www.coolorcosy.com.au.

Composition of the Board

The Cool or Cosy Board currently comprises two (2) non-executive directors and one (1) executive director.

The composition of the Board is set based on the following factors:

- the Company's Constitution provides for the number of directors to be not less than three (3) and not more than ten (10) as determined by the directors from time to time;
- the Board has adopted a policy that the position of Chairman will continue to be held by a non-executive director;
- consistent with the Company's objective that the Board should encompass a broad range of relevant expertise, the present Board consists of directors with a collective of diverse skills, qualifications and experience as more fully detailed in the Company's Annual Report and on its website at www.coolorcosy.com.au.

Cool or Cosy's Constitution is available in the corporate governance area of its website at www.coolorcosy.com.au.

There is no shareholding requirement imposed upon directors under the Company's Constitution, however, all of the directors of Cool or Cosy do hold shares in the Company.

Details of all holdings by directors in the Company are detailed within the Directors' Report.

Chairman

The Chairman is selected by the Board from the non-executive directors.

The current Chairman, Mr D A Hoff, is a non-executive director appointed by the Board. Mr Hoff is not considered an independent director.

The Board has considered:

- whether it would be beneficial to appoint a lead independent director;
- other positions held by the existing chair and the other non-executive director and the available time of each director; and
- the skills, qualifications and experience of the existing non-executive directors;

and based on its overall assessment of these factors it has elected not to adopt Recommendation 2.2 to appoint:

- a lead independent director; or
- alternative chairman.

The Board will continue to assess the requirements of this recommendation in the context of the Company's individual circumstances and its communicated long term objectives.

Separation of roles of Chair and CEO

Cool or Cosy's Chairman and Managing Director have separate roles. The roles and responsibilities of the Chairman and the Managing Director are set out in the Board Charter which is available within the designated corporate governance area of the company website at www.coolorcosy.com.au.

Establishment of Nomination Committee

Cool or Cosy has elected not to adopt Recommendation 2.4 because it considers that its existing selection and appointment practices, detailed within this Statement, are an efficient means of meeting the needs of the company, particularly having regard to the fact that Cool or Cosy is a relatively small publicly listed company by comparison to other listed entities which is reflected by the size of its operations, board structure and composition.

The Cool or Cosy Board currently consists of only three (3) members. It is considered that further division of the Board for the purposes of establishing a formal committee structure would not achieve enhanced efficiency or enable the Board to add greater value to this process.

The small size of the Cool or Cosy Board, and the nature of its business, means that Cool or Cosy has the present capacity to consider director competencies, selection and nomination practices in the context of duly constituted meetings of the Board and as a part of its self-evaluation processes.

Board Performance Evaluation

The Board has adopted an on-going, self-evaluation process to measure its own performance and the performance of its committee during the reporting period.
The Chairman meets periodically with individual directors to discuss the performance of the Board and the director. In addition, an evaluation is undertaken by the Chairman of the contribution of directors retiring by rotation prior to the Board endorsing their candidature.

The review process involves consideration of all of the Board's key areas of responsibility and accountability and is based on an amalgamation of factors including capability, skill levels, understanding of industry complexities, risks and challenges, and value adding contribution to the overall management of the business.

A performance evaluation for the Board, its committee and directors took place during the reporting period in accordance with the process detailed within this Statement.

The outcomes of the self-assessment program are used to enhance the effectiveness of individual directors and the Board collectively.

Enhanced effectiveness of the Board and management is also addressed through:

Board Meetings

The frequency of Board meetings and director's attendance at those meetings is detailed within the Directors' Report. Directors are expected to prepare for meetings in a manner which will enable them to attend and participate at the meeting.

Directors are also required to make on-site visits and attend workshops as required.

Induction Program

Procedures for induction of new directors are in place to allow new directors to participate fully and actively in board decision making at the earliest opportunity.

All directors are offered an induction program appropriate to their experience upon appointment so as to familiarise them with matters relating to the business, strategy and any current issues under consideration by the Board. This program consists of written background material on the company, its products, services and operations; scheduled meetings with the Chairman, Managing Director and key senior management executives of the Company.

Director education

The Board encourages directors to continue their education by participating in applicable workshops and seminars, attending relevant site visits and undertaking relevant external education.

The Company Secretary provides directors with on-going guidance on matters such as corporate governance, the Company's Constitution and the law.

Board Papers & Agendas

Board agendas are structured throughout the year in order to ensure that each of the significant responsibilities of the Board is addressed.

Directors receive board packs prior to each meeting which detail financial, operational and strategy reports from senior management who are available to discuss reports with the Board.

Access to information

All directors have access to company records and information, and receive regular detailed financial and operational reports from senior management.

The Company Secretary is available to all directors and may be consulted on on-going issues of corporate governance, the Cool or Cosy Constitution and the law. In addition, the Chairman and other independent non-executive directors regularly consult with the Managing Director and Group Accountant, and may confer and request additional information from any Cool or Cosy employee. Management are available to discuss reports, and any issue arising, with the Board as required.

The Board collectively, each Board Committee and each individual Director has the right, following appropriate consultation, to seek independent professional advice at Cool or Cosy's expense to help them carry out their responsibilities.

A copy of the process for performance evaluation of the board, its committees and individual directors, and key executives is available in the designated area for corporate governance on the Company website at www.coolorcosy.com.au.

Term of office, skills, experience and expertise of each director

The qualifications, experience and expertise of the directors, and the respective terms in the office held by individual directors, are set out in the Directors' Report on pages 7 to 22 of the Cool or Cosy 2010 Annual Report.

Independent Professional Advice

Cool or Cosy has in place a procedure whereby, after appropriate consultation, directors are entitled to seek independent professional advice, at the expense of Cool or Cosy, to assist them to carry out their duties as directors. The policy of Cool or Cosy provides that any such advice is made available to all directors.

Procedure for Selection and Appointment of New Directors

The process for appointing a director within Cool or Cosy is that, when a vacancy exists, the Board identifies candidates with the appropriate expertise and experience, using external consultants as appropriate. The most suitable candidate is appointed but must stand for election at the next Company Annual General Meeting following the appointment.

Consistent with the current law there is no retirement age for directors fixed by the *Corporations Act 2001(Cth)* or ASX Listing Rules, although a person of or over the age of seventy-two (72) years of age may not be appointed, or re-appointed as a director except pursuant to a resolution of the Company in accordance with the Company's Constitution.

The process for re-election of a director is in accordance with the Company's Constitution, which requires that each year, at least one-third of the non-executive directors retire from office at the Annual General Meeting. The retiring directors may be eligible for re-election.

Principle 3: Promote ethical and responsible decision-making.

Companies should actively promote ethical and responsible decision-making.

Recommendation 3.1:

Establish a code of conduct and disclose the code or a summary of the code as to the:

- *practices necessary to maintain confidence in the company's integrity;*
- *practices necessary to take into account their legal obligations and the reasonable expectations of shareholders; and*
- *responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

Recommendation 3.2: Establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

Recommendation 3.3:Provide the information indicated in Guide to reporting on Principle 3.

Code of Conduct

Cool or Cosy is committed to the operation of its business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of the Company and the industry in which it operates.

The Board has approved a *Code of Conduct and Ethics* which applies to all directors, executives, management and employees without exception. In addition, the conduct of directors and executives is also governed by *Code of Conduct for Directors and Executives.*

Each Code of Conduct is designed to ensure that:

- high standards of corporate and individual behaviour are observed by all Cool or Cosy directors and executives in the context of their respective roles and the performance of their duties with Cool or Cosy;
- directors and executives are aware of their responsibilities to Cool or Cosy under the terms of their appointment or contract of employment; and
- all of the stakeholders of the Company can be guided by the stated values and policies of Cool or Cosy.

In summary, the Code provides that directors and senior executives must:

- act honestly, in good faith and in the best interests of the Company;
- use due care, skill and diligence in the fulfilling their duties;
- use the powers of their position for a proper purpose, in the interests of the Company;
- not make improper use of information acquired their position;
- not allow personal interests, or those of associates, conflict with the interests of the Company;
- exercise independent judgement and actions;
- maintain the confidentiality of Company information acquired by virtue of their position;
- not engage in conduct likely to bring discredit to the Company; and
- comply at all times with both the spirit and the letter of the law, as well as, policies of the Company.

Directors of the Company may act in a professional capacity for the Company or its controlled entities, other than as auditor of the Company. These arrangements are subject to the restrictions of the *Corporations Act 2001 (Cth)*.

Disclosure of related party transactions is set out in Note 25 to the Financial Statements.

Under the Constitution of the Company, and the *Corporations Act 2001 (Cth)*,where the possibility of a conflict of interest exists and involves a director, directly or indirectly, the director must declare the fact, nature, character and extent of the conflict at the first meeting of directors held after the relevant facts come to the director's knowledge.

The director concerned does not receive copies of the relevant Board papers, if any, and withdraws from the Board meeting while such matters are considered by the remainder of the Board. Accordingly, the interested director takes no part in discussions nor exercises any influence over other members of the Board if a potential conflict of interest exists.

In addition, Cool or Cosy has developed a series of policies designed to promote ethical and responsible decision making by directors, executives, employees and contractors of the Company, including:

- *Trading Policy;*
- *Market Disclosure Policy;*
- *Privacy Policy;*
- *Occupational Health & Safety Policy;*
- *Code of Conduct and Ethics (General); and*
- *Code of Conduct for Directors' & Executives.*

Employees are actively encouraged to report activities or behaviour to senior management, the Company Secretary or the Board, which are a breach of the Code of Conduct and Ethics, other Cool or Cosy policies or regulatory requirements or laws.

The Company will investigate any concerns raised in a manner that is fair, objective and affords natural justice to all people involved. The Company is committed to making necessary changes to its processes and taking appropriate action in relation to employees found to have behaved contrary to legal and company standard requirements.

Trading Policy

Directors, senior executives and employees are subject to the *Corporations Act 2001 (Cth)* relative to restrictions applying for, acquiring and disposing of securities in, or other relevant products of, the Company (or procuring another person to do so), if they are in possession of inside information.

Inside information is that information which is not generally available, and which if generally available, a reasonable person would expect it to have a material effect on the price or value of the securities in the Company.

Under the Cool or Cosy *Trading Policy*, directors, senior executives and employees of the Company are restricted from trading in the Company's securities during the period of one (1) month preceding the making of an announcement to the market by the Company relating to the:

- Company's Annual results;
- Company's Half Year results; and
- Chairman's Address.

The Company notifies the ASX of any change in a director's interests in securities, and in contracts relevant to securities, as required by the ASX Listing Rules.

Policy Disclosure

Copies of the Cool or Cosy *Code of Conduct & Ethics, Code of Conduct for Directors and Executives* and *Trading Policy* are available at www.coolorcosy.com.au.

Principle 4: Safeguard integrity of financial reporting.

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Recommendation 4.1:The Board should establish an audit committee.

Recommendation 4.2: Structure the audit committee so that it:

- *consists of only non-executive directors;*
- *consists of a majority of independent directors;*
- *is chaired by an independent chair, who is not chair of the board;*
- *hasat least three (3) members.*

Recommendation 4.3: The audit committee should have a formal charter.

Recommendation 4.4: Provide the information indicated in Guide to reporting on Principle 4.

Establishment of Audit Committee

The Cool or Cosy Board has an established Audit Committee which continues to provide assistance to the Board in accordance with its established Terms of Reference.

Audit Committee Structure

Cool or Cosy does not comply with ASX Recommendation 4.2 regarding the elements relating to a majority or independent directors and the desired number of members of an audit committee.

The current Cool or Cosy Audit Committee comprises only two (2) non-executive directors and is chaired by Mr J G Smith who is not Chairman of the Board.

The Board considers that the technical skills, qualifications and experience represented by the involvement of members Mr D A Hoff and Mr J G Smith are most suited to the effective discharge of the responsibilities of the committee.

Cool or Cosy does not consider that any further value will be added by the inclusion of another member for the sake of satisfying this requirement, particularly given the small size and diversity of the Cool or Cosy Board.

Cool or Cosy is not presently required to comply with the requirement for at least three (3) members on its Audit Committee under the current ASX Listing Rules. The Board will, however, continue to monitor the requirements of this recommendation in the context of the Company's prevailing position and circumstances.

Audit Committee – Terms of Reference

The Cool or Cosy Audit Committee role and responsibilities, composition, structure and membership requirements are detailed in a formalised charter comprising the Audit Committee – Terms of Reference.

The principal functions of the Cool or Cosy Audit Committee as detailed within the Terms of Reference are to:

- review of the annual and half yearly financial reporting carried out by Cool or Cosy;
- review of the accounting policies of Cool or Cosy;
- review the scope and audit programmes of the internal and external auditors and any material issues arising from these audits;
- oversee the independence of external auditors and determining procedures for the rotation of audit partners; and
- report to the Board on the effectiveness of Cool or Cosy's systems of accounting and internal controls.

Reflecting the relative small size of the company, the full Board remain responsible for:

- the sufficiency of, and compliance with, ethical guidelines and company policies affecting corporate governance, financial reporting and corporate control together with compliance with laws and external regulations;
- identification of the full range of actual or potential risk exposures which are material to Cool or Cosy; and
- the effectiveness of the group's risk management systems and strategies.

Meetings

The Cool or Cosy Audit Committee prepares and maintains a register of minutes of its meetings and these are included in the Board papers for the next full Board meeting after each Audit Committee meeting.

Reporting

The Chair of the Audit Committee reports to the Board as and when required on matters relevant to the committee's role and responsibilities.

Engagement & Rotation of External Auditor

The Audit Committee is responsible for nominating the external auditor to the Board for re-appointment. If the Audit Committee recommends a change in external auditor to the Board, the Board's nomination of external auditor requires the approval of shareholders. The Audit Committee recommends to the Board the compensation of the external auditor.

The Audit Committee meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the scope, quality and independence of the audit.

It has been determined by the Audit Committee that the external auditor will not provide services to the company where the auditor would:

- have a mutual or conflicting interest with the Company;
- be in a position where they audit their own work;
- function as management of the Company; or
- have their independence impaired or perceived to be impaired in any way.
- Specifically, the external auditor will not normally provide the following types of services to the Company:
- bookkeeping or other services relating to the accounting records or financial statements of the group;
- financial information or information technology systems design and implementation;
- appraisal and valuation services, fairness opinions or contributions-in-kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions, including temporary staff assignments or human resource services, including recruitment of senior management;
- broker or dealer services, investment advisor, corporate finance or investment banking services; and
- legal and litigation support services.

Procedures are in place governing approval of any non-audit work before the commencement of any engagement.

Duncan Dovico, Chartered Accountants, ("Duncan Dovico") were appointed as independent external auditor of Cool or Cosy on 16 July 2009 and continued to fulfil this role during the reporting period.

The Board has elected to adopt a policy which is consistent with the primary and secondary rotation obligations regarding auditors such that:

- the lead or review audit partner's responsibilities may not be performed by the same person for longer than five (5) successive years ("primary rotation obligation"); and
- the lead or review audit partner's responsibilities may not be performed by the same person for more than five (5) out of seven (7) successive years ("secondary rotation obligation").

In addition, the Board requires a minimum of two (2) consecutive years "cooling off" period before an auditor undergoing rotation can return to playing a significant role in the audit of the Company.

Rose Megale of Duncan Dovico has fulfilled the role of lead External Audit Partner of the consolidated entity since 16 July 2009 and in respect of the audit for the period ended 30 June 2009.

Details of the members of the Audit Committee

The Board's Audit Committee consists of:

Mr J G Smith (Chairman)

Mr D A Hoff

The lead signing and review External Audit Partner and the Company's Managing Director attend committee meetings by standing invitation.

The qualifications of each member of the committee are set out in the Directors' Report commences on page 7 of the Cool or Cosy 2010 Annual Report.

Number of Meetings and Names of Attendees

The number of meetings held during the reporting period and the attendees at these meetings is detailed within the Directors' Report.

Audit Committee Charter

The Cool or Cosy Audit Committee Charter is available at www.coolorcosy.com.au.

Principle 5: Make timely and balanced disclosure.

Companies should promote timely and balanced disclosure of all material matters concerning the company.

Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Recommendation 5.2: Provide the information indicated in Guide to reporting on Principle 5.

Policies & procedures regarding disclosure requirements

The Cool or Cosy Board is committed to keeping its shareholders, and the market, fully informed of major developments having an impact on the Company.

Comprehensive procedures are in place to identify matters that are likely to have a material affect on the price, or value, of the Cool or Cosy securities and to ensure those matters are notified to the ASX in accordance with ASX Listing Rule disclosure requirements.

Senior management and the Board are responsible for scrutinising events and information to determine whether the disclosure of the information is required in order to maintain the market integrity of the Company's shares listed on the ASX. The Company Secretary is responsible for all communications with the ASX.

Compliance with Listing Rule Disclosure Requirements

The procedures relating to the notification of price sensitive information to the ASX and the subsequent posting of announcements on the Cool or Cosy website are detailed within the Cool or Cosy *Market Disclosure Policy* available at www.coolorcosy.com.au.

Principle 6: Respect the rights of shareholders.

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Recommendation 6.1:Design and disclose a communications policy to promote effective communication with shareholders and encourage effective participation by them at general meetings.

Recommendation 6.2: Provide the information indicated in Guide to reporting on Principle 6.

Shareholder Communication Policy

Cool or Cosy recognises the right of shareholders to be informed of matters, in addition to those prescribed by law, which affect their investments in the Company.

The Cool or Cosy *Shareholder Communication Policy* demonstrates Cool or Cosy's commitment to:

- dealing fairly, transparently and openly with both current and prospective shareholders;
- the use of available channels and cost effective technologies to reach shareholders who may be geographically dispersed and in order to communicate promptly with all shareholders; and
- facilitating participation in shareholders meetings and dealing promptly with shareholder enquiries.

Cool or Cosy communicates information to shareholders through:

- its Annual Report;
- disclosures to the ASX and ASIC;
- notices and explanatory memoranda of annual general meetings and general meetings;
- occasional letters from the Managing Director and Chairman to inform shareholders of key matters of interest; and
- the Company's website at www.coolorcosy.com.au.

The Board encourages active participation by shareholders at each Annual General Meeting, or other general meetings, to ensure a high level of accountability and understanding of Cool or Cosy's strategy, performance and goals.

Consistent with best practice, important issues are presented to shareholders as single resolutions expressed in plain, unambiguous language. Proceedings are held in a locality, and at a readily accessible venue, conducive to maximising the number of shareholders present, and able to participate, at the meeting. Shareholders are provided with opportunities of asking the Board questions regarding the management of the Company.

Policy Disclosure

The ways in which Cool or Cosy will communicate effectively with its shareholders are detailed within the Cool of Cosy *Shareholders Communications Policy* available at www.coolorcosy.com.au.

Principle 7: Recognise and manage risk

Companies should establish a sound system of risk oversight and management and internal control.

Recommendation 7.1:

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Recommendation 7.2:

The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

Recommendation 7.3:

The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.

Oversight and management of material business risks

The Board of Cool or Cosy:

- recognise that effective management of risk is an integral part of good management and vital to the continued growth and success of Cool or Cosy;
- is responsible for the oversight of the group's risk management and control framework including the development of risk profiles as a part of the overall business and strategic planning process; and
- has implemented a policy framework designed to ensure that the group's risks are identified, analysed, evaluated, monitored, and communicated within the organisation on an on-going basis, and that adequate controls are in place and functioning effectively.

The Cool or Cosy Risk Management and Control Policy Framework incorporates the maintenance of appropriate policies, procedures and guidelines which address the Company's unique operating environment and is utilised by the Board as a means of identifying opportunities and avoiding or mitigating losses in the context of its businesses.

The Audit Committee assists the Board in its risk management role by reviewing the financial and reporting aspects of the group's risk management and control practices.

The Managing Director has ultimate responsibility for control and management of operational risk and the implementation of avoidance or mitigation measures within the group and may delegate control of these risks to the appropriate level of management at each site.

The Board regularly monitors the operational and financial performance of the Company and the economic entity against budget and other key performance measures. The Board also receives and reviews advice on areas of operational and financial risk and develops strategies, in conjunction with management, to mitigate those risks.

Each month, a report is presented to the Board by the Managing Director. The reports encompass matters including actual financial performance against budgeted forecasts, workplace health and safety, legal compliance, corporate governance, strategy, quality assurance and standards, human resources, industry and market information, operational developments and environmental conformance. Reports are prepared and submitted on a monthly basis by the Group Accountant in relation to the overall financial position and performance of the Company. In addition to formalised written reporting procedures, the Board is regularly briefed by the Managing Director and senior management on emerging or developed trends in market and operational conditions having the potential to impact on the overall performance of the group.

Management has reported to the Board on the effectiveness of the Company's management of its material business risks in respect of the year ended 30 June 2010.

This report was undertaken in accordance with the process outlined in this Statement.

CEO & CFO Assurance

The Managing Director and Group Accountant of Cool or Cosy report annually in writing to the Board that:

- consolidated financial statements of Cool or Cosy and its controlled entities for each subsequent half year and full financial year present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with accounting standards; and
- declarations provided in accordance with section 295A of the *Corporations Act* are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Board has received assurance from the chief executive officer and the person performing the chief financial officer function under Recommendation 7.3 in respect of the year ended 30 June 2010.

This assurance was provided in accordance with the process outlined in this Statement.

Policy Disclosure

Cool or Cosy has made a description of its Risk Oversight and Management Framework comprising its internal compliance and control system policy publicly available and posted it to its website in the designated corporate governance area at www.coolorcosy.com.au.

Principle 8: Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Recommendation 8.1: The Board should establish a remuneration committee.

Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Recommendation 8.3: Companies should provide the information indicated in the Guide to reporting on Principle 8.

Establishment of Remuneration Committee

Cool or Cosy has elected not to adopt Recommendation 8.1 because it considers that its existing remuneration practices, detailed within this Statement, are an efficient means of meeting the needs of the company, particularly having regard to the fact that Cool or Cosy is a relatively small publicly listed company by comparison to other listed entities which is reflected by the size of its operations, board and management structure and composition.

The Cool or Cosy Board currently consists of only three (3) members. It is considered that further division of the Board for the purposes of establishing a formal remuneration committee structure would not achieve enhanced efficiency or enable the Board to add greater value to this process.

The small size of the Cool or Cosy Board, the nature of its business and its management structure, means that Cool or Cosy has the present capacity of giving due consideration to the overall remuneration policies and strategies of the company during the conduct of its regular board meetings and by appropriate recourse to relevant market data and, where applicable, to external executive remuneration consultants.

Executive Director & Non-executive Director remuneration

The aggregate remuneration of non-executive directors is approved by shareholders.

Individual directors' remuneration is determined by the board within the approved aggregate total. In determining the appropriate level of director's fees, data from surveys undertaken of other public companies similar in size or market section to Cool or Cosy is taken into account.

Non-executive directors of Cool or Cosy are:

- not entitled to participate in performance based remuneration practices unless approved by shareholders; and
- currently remunerated by means of the payment of cash benefits in the form of directors' fees.

Cool or Cosy does not currently have in place a retirement benefit scheme or allowance for its non-executive directors.

Executive directors do not receive directors' fees.

A review of the compensation arrangements for the Managing Director and senior executives is conducted by the full Board at a duly constituted Directors' Meeting. The review is performed annually and is based on criteria including the individual's performance, market rates paid for similar positions and the results of the Company during the relevant period.

The broad remuneration policy objective of Cool or Cosy is to ensure that the emoluments provided properly reflect the person's duties and responsibilities and is designed to attract, retain and motivate executives of the highest possible quality and standard in the Company's prevailing circumstances to enable the organisation to succeed.

The Cool or Cosy Employee Share Incentive Plan ("COCESIP") has been approved by shareholders and provides the Board with the discretion to grant options and provide loans to Eligible Executives (as defined under the COCESIP) for the purpose of acquiring Scheme Shares under the COCESIP.

The Board ensures that the payment of equity-based executive remuneration is made in accordance with thresholds established by the COCESIP and exercises its discretion under the scheme in a manner consistent with the broad remuneration policy objectives of the Company.

Cool or Cosy is committed to making timely disclosure of all relevant information relating to its remuneration practices and policies in the context of reporting obligations in its Corporate Governance Statement, in its Annual Report, and pursuant to continuous disclosure requirements.

Policy Disclosure

The Company's policies relating to the remuneration of directors and senior executives and the level of their remuneration are detailed in the Directors' Report on pages 7-22 of the Cool or Cosy 2010 Annual Report and Notes 25 and 27 to the 2010 Financial Statements.

Copies of the Cool or Cosy Remuneration Policy and COCESIP are publicly available in the designated corporate governance area of its website at www.coolorcosy.com.au.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Consolidated 2010 $	2009 $
Continuing operations			
Sales revenue	4	**11,315,974**	8,528,603
Cost of sales		**(4,075,678)**	(4,010,734)
Gross Profit		**7,240,296**	4,517,869
Other revenue from ordinary activities	4	**209,404**	137,020
Employment expense		**(1,722,154)**	(2,384,906)
Marketing expense		**(1,698,154)**	(543,714)
Equipment and plant expense		**(621,506)**	(584,398)
Consultants expense	5	**(484,041)**	(625,241)
Rental expense	5	**(330,880)**	(301,332)
Depreciation expense	5	**(175,491)**	(58,662)
Finance expense	5	**(583,358)**	(632,997)
Impairment (reversal)/expense	5	**68,552**	(142,757)
Motor vehicle expenses		**(258,223)**	(62,039)
Other expenses		**(498,587)**	(709,175)
Profit /(loss) from continuing operations before income tax		**1,145,858**	(1,390,332)
Income tax benefit/(expense)	8	**33,047**	33,047
Profit /(loss) from continuing operations		**1,178,905**	(1,357,285)
Discontinued Operations			
Revenue from ordinary activities	7	**-**	1,527,963
Expenses from ordinary activities	7	**(71)**	(2,157,232)
Loss before income tax from discontinued operations		**(71)**	(629,269)
Income tax benefit/(expense)	7	**-**	-
Loss from discontinued operations		**(71)**	(629,269)
Consolidated			
Profit /(loss) attributable to equity holders of the company		**1,178,834**	(1,986,554)
Other comprehensive income			
Other comprehensive income for the period		**-**	-
Total comprehensive income attributable to members of Cool or Cosy Limited		**1,178,834**	(1,986,554)
		Cents per Share	
Earnings per share attributable to the ordinary equity holders of the company:			
Basic loss per share	23	**1.82**	(3.48)
Diluted earnings per share	23	**1.82**	(3.48)
Continuing Operations			
Basic loss per share	23	**1.82**	(2.38)
Diluted earnings per share	23	**1.82**	(2.38)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Consolidated	
		2010	2009
As at 30 June 2010	**Notes**	**$**	$
ASSETS			
Current assets			
Cash and cash equivalents	9	**1,200,905**	1,233,419
Trade and other receivables	10	**598,391**	338,631
Inventories	11	**1,229,599**	1,230,893
Other	12	**79,822**	296,488
Total current assets		**3,108,717**	**3,099,431**
Non current assets			
Property, plant and equipment	13	**582,214**	727,620
Intangible assets	14	**1,559,533**	807,887
Total non current assets		**2,141,747**	1,535,507
Total assets		**5,250,464**	4,634,938
LIABILITIES			
Current liabilities			
Trade and other payables	15	**822,490**	1,120,647
Provisions	16	**550,866**	523,134
Interest bearing liabilities	17	**1,579**	188,987
Total current liabilities		**1,374,935**	1,832,768
Non current liabilities			
Interest bearing liabilities	17	**3,822,630**	3,818,547
Deferred tax liability	18	**82,617**	115,664
Total non current liabilities		**3,905,247**	3,934,211
Total liabilities		**5,280,182**	5,766,979
Net assets		**(29,718)**	(1,132,041)
EQUITY			
Issued capital	19	**4,449,210**	4,530,703
Reserves	20 (a)	**479,538**	474,538
Retained losses	20 (b)	**(4,917,527)**	(6,096,361)
Parent company interest		**11,221**	(1,091,120)
Minority interest	20 (c)	**(40,939)**	(40,921)
Total equity attributable to equity holders of Cool or Cosy Limited		**(29,718)**	(1,132,041)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Reserves	Retained earnings	Total	Minority interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000
As at 1 July 2008	4,064	388	(4,109)	343	(41)	302
Income and expense recognised directly in equity						
Loss for the year	-	-	(1,987)	(1,987)	-	(1,987)
Equity transactions (net of transaction costs)						
Issue of shares (private placements)	(35)	-	-	(35)	-	(35)
Convertible notes - fair value of option to convert	502	-	-	502	-	502
Share based payments	-	86	-	86	-	86
As at 30 June 2009	**4,531**	**474**	**(6,096)**	**(1,091)**	**(41)**	**(1,132)**
Income and expense recognised directly in equity						
Profitfor the year	**-**	**-**	**1,179**	**1,179**	**-**	**1,179**
Equity transactions (net of transaction costs)						
Adjustment to paid up capital	**(232)**	**-**	**-**	**(232)**	**-**	**(232)**
Issue of shares (private placements)	**150**	**-**	**-**	**150**	**-**	**150**
Share based payments	**-**	**5**	**-**	**5**	**-**	**5**
As at 30 June 2010	**4,449**	**479**	**(4,917)**	**11**	**(41)**	**(30)**

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

CONSOLIDATED STATEMENT OF CASHFLOWS

COOL OR COSY LIMITED AND ITS CONTROLLED ENTITIES

		Consolidated	
	Note	2010	2009
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**12,332,766**	10,269,101
Interest received		**64,449**	69,023
Payments to suppliers and employees		**(11,294,347)**	(10,058,630)
NET CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES	**21(a)**	**1,102,868**	279,494
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**55,101**	390,391
Purchase of property, plant and equipment		**(98,837)**	(160,329)
Payment for development expenditure		**(826,811)**	(439,365)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**(870,547)**	(209,303)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans repaid from directors/related parties		**-**	15,001
Proceeds from issue of equity securities		**-**	466,569
Proceeds from borrowings		**587,441**	-
Repayment of interest on convertible notes		**(583,358)**	(325,421)
Repayment of borrowings		**(268,918)**	(138,252)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**(264,835)**	17,897
Net decrease in cash and cash equivalents		**(32,514)**	88,088
Cash and cash equivalents at beginning of the financial year		**1,233,419**	1,145,331
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	**9**	**1,200,905**	1,233,419

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

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 years presented, unless otherwise stated. The financial report includes financial statements for Cool or Cosy Limited as a consolidated entity consisting of Cool or Cosy Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

Compliance with IFRS
The financial report of Cool or Cosy Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Going Concern
The group has net liabilities for the year of $29,718 (2009: net liabilities of $1,132,041), and an overall decrease in cash and cash equivalents of $32,514 (2009: increase of $88,088). Notwithstanding this, the Directors believe that they have taken and are continuing to take appropriate measures to secure the financial position of the group such that the group will be able to realise assets and liabilities at the values stated, and that the going concern assumption is appropriate for the preparation of the financial report.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Cool or Cosy Limited at the end of the reporting period. A controlled entity is any entity over which Cool or Cosy Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 26 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

(c) Foreign currency translation

(i) Functional and presentation currency

The functional currency of each of the group entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency *(ii) Transaction and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

(iii) Exchange differences arising on the translation of monetary items are recognised in the consolidated statement of comprehensive income

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the consolidated statement of comprehensive income.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Revenue from the sale of goods is recognised when a group entity sells a product to the customer.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

Cool or Cosy Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Cool or Cosy Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.
In addition to its own current and deferred tax amounts, Cool or Cosy Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(f) Leases

Leases of property, plant 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 fair value of the leased property or, if lower, 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. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive incomeon a straight-line basis over the period of the lease.

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used 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, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance 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. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the consolidated 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 against other expenses in the consolidated statement of comprehensive income.

(j) Inventories

(i) Raw materials and finished goods

Raw materials and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory 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 of completion and the estimated costs necessary to make the sale.

(k) Investments and other financial assets

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables and receivables in the consolidated statement of financial position.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(l) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or re-valued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

-Leased plant and equipment	5 yrs
-Plant and equipment	3 - 5 yrs
-Other furniture and fittings	3 - 5 yrs

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(m) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each subsidiary.

(i) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

(ii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

The component of convertible notes that exhibits characteristics of a borrowing is recognised as a liability in the consolidated statement of financial position, net of transaction costs. On issue of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability is due to the passage of time is recognised as a finance cost. The remainder of the proceeds is allocated to a convertible note reserve that is recognised and included in equity. The carrying amount of the reserve is not remeasured in subsequent years.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance costs.

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

(p) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(q) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.
Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Provision for Warranties

Provision is made in respect of the consolidated entity's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the consolidated entity's history of warranty claims.

(r) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costsare measured at the amounts expected to be paid when the liabilities are settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits

Equity-settled compensation

The consolidated entity operates a number of share-based compensation plans. These include both a share option arrangement and an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the consolidated statement of comprehensive income. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(s) Contributed equity

Ordinary shares are classified as equity.
Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(t) Losses per share

(i) Basic loss per share

Basic loss per share is calculated by dividing:

- the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position .

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(u) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(v) New accounting standards and interpretations

AASB 8 Operating Segments – AASB 8 replaced AASB 14 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114.

AASB 101 Presentation of Financial Statements – The revised standard separates owner and non-owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement or in two linked statements. The Group has elected to present one single statement.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2010:

- AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

  These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

  The changes made to accounting requirements include:

  – simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;

  – simplifying the requirements for embedded derivatives;

  – removing the tainting rules associated with held-to-maturity assets;

  – removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;

  – allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and

  – reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:

- the objective of the entity's business model for managing the financial assets; and
- the characteristics of the contractual cash flows.

- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

- AASB 2009–5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

- AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1,3,4,5,7,101,102,108,112,118,121,127,128,131,132,136,139,1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

  The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:

  - Two categories for financial assets being amortised cost or fair value;
  - Removal of the requirement to separate embedded derivates in financial assets; and
  - Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if :
    - the contractual cash flows from the instrument represent principal and interest and
    - The entity's purpose for holding the instrument is to collect the contractual cash flows

- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amendsAASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

  This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

  This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

2 Financial Risk Management

The consolidated group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The consolidated group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the financial performance of the Group.

The consolidated group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and aging analysis for credit risk.

The Group holds the following financial instruments:

	Consolidated	
	2010	2009
	$	$
Financial assets		
Cash & cash equivalents	**1,200,905**	1,233,419
Trade & other receivables	**598,391**	338,631
Other financial assets	**-**	206,666
	1,799,296	1,778,716
Financial Liabilities		
Trade & other payable	**822,490**	1,120,647
Interest bearing liabilities	**1,579**	195,061
Convertible notes	**3,822,630**	4,443,078
	4,646,699	5,758,786

a) Market Risk

i.Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised liabilities denominated in a currency that is not the entity's functional currency. The consolidated group enters into forward exchange contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the consolidated group against unfavourable exchange rate movements for both the contracted and anticipated future purchases undertaken in foreign currencies.

As at balance date, there were no forward exchange contracts outstanding.

The consolidated group's exposure to foreign currency risk at the reporting date, expressed in Australian dollars, was as follows:

	30 June 2010	30 June 2009
	USD	**USD**
	$	**$**
Trade payables	**(i)**	**(i)**
Forward exchange contracts		

-	Buy foreign currency	-	-
-	Sell foreign currency	-	-

(i) All amounts owing in foreign currency were all paid as at reporting date.

The carrying amounts of the parent entity's financial assets and liabilities are denominated in Australian dollars.

Consolidated Group Sensitivity – foreign exchange risk
Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's post-tax profit for the year would have remained unchanged mainly as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table.

ii. Price Risk
The consolidated group is not exposed to market price risk.

iii. Interest rate risk
The consolidated group's exposure to interest rate risk arises from variable interest rates on trading facilities and borrowings. The consolidated group's financial liabilities exposed to fixed interest and variable interest rates are summarised below:

	Weighted Average Effective Interest Rate		Non Interest Bearing		Floating Interest		Fixed Interest Rate		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
	%	**%**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Financial Assets										
Bank	**2.97**	5.8	-	-	**1,200,905**	1,233,419	**-**	-	**1,200,905**	1,233,419
Financial liabilities										
Lease liabilities	**8.28**	8.28	-	-	**-**	-	**1,579**	42,031	**1,579**	42,031
Convertible Notes	**10**	10	-	-	**-**	-	**4,185,000**	4,443,078	**4,185,000**	4,443,078
Trade Facility	**-**	2.5	-	-	**-**	149,095	**-**	-	**-**	149,095

Consolidated Group Sensitivity – interest rate risk
The following sensitivity analysis has been based on the interest rate risk exposures in existence at 30 June 2010, had the variable interest rate on debt and cash balances increased by 100 basis points and decreased by 50 basis points. The effect is calculated on year end balances and the impact on pre tax profit is outlined below.

Consolidated

	2010	2009
	$	$
+ 1% (100 basis points)	**12,009**	10,843
-.5 % (50 basis points)	**(6,005)**	(5,442)

(b) Credit Risk

Credit risk is managed on a group basis and reviewed regularly. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the consolidated statement of financial position and notes to the financial statements.

Trade receivables are carried at amounts due. Receivables that are not past due and not impaired are considered recoverable. Payment terms are generally 30 days. The ageing of trade receivables and allowance for impairment is detailed below:

	2010	2009
	$	**$**
Impairment Allowance	**(66,205)**	**(151,148)**
The ageing of the Trade Receivables as at reporting date was:		
Not pass due 30 days	**261,588**	165,998
Past due 0- 30 days	**68,661**	165,277
Past due 31-120 days	**268,142**	157,095
	598,391	488,370

Credit risk from balances with banks and financial institutions is regularly monitored and reviewed by The Board. No material exposure is considered to exist as the consolidated group's policy is to invest its cash and cash equivalents with financial institutions having a credit rating of at least AAA.

	2010	2009
	$	**$**
Cash at bank and short-term bank deposits	**1,200,905**	**1,233,419**

Liquidity Risk

Liquidity risk arises from the possibility that there will be sufficient funds available to make payment as and when required. The consolidated group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financial arrangements

The Group had access to the following undrawn trade facilities at the reporting date:

Consolidated

	2010	2009
	$	$
Committed arrangement facilities availableto the consolidated group:		
- Committed standby trade facility available	**800,000**	**800,000**
- Amount of facility unused	**800,000**	**650,905**

The trade facility may be drawn down at any time.

Maturities of financial liabilities

The tables below analyse the consolidated group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group as at 30 June 2010	**Less than 6 Months**	**Between 6-12 months**	**Between 1 & 2 years**	**Between 2 & 5 years**	**Over 5 years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Non-interest bearing						
Trade and sundry payables	822,490	-	-	-	-	822,490
Fixed rate						
Convertible Notes	-	-	-	4,185,000	-	4,185,000
Lease Liabilities	1,579		-	-	-	1,579
Total	824,069	-	-	4,185,000	-	5,009,069

Group as at 30 June 2009	**Less than 6 Months**	**6-12 months**	**Between 1 & 2 years**	**Between 2 & 5 years**	**Over 5 years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Non-interest bearing						
Trade and sundry payables	1,120,647	-	-	-	-	1,120,647
Variable rate						
Trade Facility	149,095	-	-	-	-	149,095
Fixed rate						
Convertible Notes	-	-	-	4,335,000	-	4,335,000
Lease Liabilities	30,554	17,614	-	-	-	48,168
Total	1,300,296	17,614	-	4,335,000	-	5,652,910

3 Critical 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 may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill and other intangibles

The Group tests annually whether any intangible asset has suffered impairment, in accordance with the accounting policy stated in note 1(m). The recoverable amounts of subsidiaries have been determined based on value-in-use calculations. These calculations require the use of assumptions regarding gross margins, growth rates and discount rates applicable to goodwill and other intangibles. In regards to value in use calculations in respect of development expenditure key assumptions include: a forecast period of 5 years, a target sales price based on 30% of gross margin, a discount rate of 20%, and costing based on quotations from suppliers. The Board considers these assumptions to be appropriate because these provide a conservative estimate of value in the prevailing circumstances.

(ii) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

(b) Critical judgments in applying the entity's accounting policies

No critical judgments have been made in applying the entity's accounting policies.

4 Revenue

	Consolidated	
	2010	**2009**
	$	**$**
From continuing operations		
Sales revenue		
Sale of goods	**11,315,974**	8,528,603
	11,315,974	8,528,603
Other revenue		
Interest income	**64,449**	66,645
Rebates & subsidies	**2,365**	(3,851)
Sale of assets	**(1,397)**	14,911
Gain of foreign exchange	**(13,651)**	19,630
Royalty revenue	**71,183**	
Sundry income	**86,455**	39,685
Total other revenue	**209,404**	137,020
Total revenue from continuing operations	**11,525,378**	8,665,623

5 Expenses

Profit before income tax includes the following specific expenses:

Depreciation

	Consolidated	
	2010	**2009**
	$	**$**
Plant and equipment		
Plant and equipment under finance leases		
Total depreciation	**173,491**	58,602
Consultants expense		
Accounting advice	**31,465**	51,188
Audit fees	**72,000**	80,600
IT support	**32,615**	17,818
Legal advice	**41,663**	78,646
Business management	**306,298**	396,989
Total consultants expense	**484,041**	625,241
Finance costs		
Interest and finance charges paid / payable for financial liabilities not at fair value through profit or loss	**583,358**	632,997
Net loss on disposal of property, plant and equipment	**(1,397)**	(14,911)
Rental expense relating to operating leases		
Minimum lease payments	**330,880**	301,332
Impairment losses - financial assets		
Trade receivables	**89,943**	131,012
Impairment/(reversal of impairment) of other assets (note (a))		
Loans	**(68,552)**	142,757
Other expenses included in the consolidated statement of comprehensive income		
Directors fees	**75,000**	65,565
Administration costs	**289,869**	315,373
Other costs	**133,718**	162,761
	498,587	543,699

(a) Impairment of other assets

During the financial year, a non recourse loan made by the Company to former Managing Director, Ronald Sanders during his tenure was written off. The original loan was for the purchase of ordinary shares in the Company to the value of $283,996. Upon Mr Sander's resignation it was determined that the full value of the loan was unlikely to be received and had consequently been impaired in the 2009 financial year. The Directors have determined that the remaining loan receivable of $158,438 was not recoverable from Mr Sanders and has been written off in the current financial year. The issued shares relating to this loan can be sold at the discretion of the Company.

6 Segment Information

The Group's primary reporting format is business segments.

The operating businesses are organised and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Insulation and Air-conditioning segment supplies cellulose fibre insulation and split and ducted air-conditioning solutions to the residential, commercial and wholesale markets.

Transfer prices between business segments were set at an arms length basis in a manner similar to transactions with their parties.

The consolidated group operates predominantly in one main geographical area being Australia.

Business segments

The following tables present revenue and result information and certain asset and liability information regarding business segments for the years ended 30 June 2010 and 30 June 2009:

	Air-conditioning, Solar hot water and Insulation		**Other**	**Total**
	$		**$**	**$**
Year ended 30 June 2010	Continuing Operations	Discontinued Operations	Continuing Operations	
Revenue				
Sales revenue to external customers	11,174,753	-	141,221	11,315,974
Other revenue	-	-	144,955	144,955
Total segment revenue	11,174,753	-	286,176	11,460,929
Non-segment revenue				
Interest revenue	-	-	-	64,449
Total consolidated revenue				11,525,378
Result				
Segment result	859,682	(71)	286,176	1,145,787
Minority interest	-	-	-	-
Deferred tax benefit	33,047	-	-	33,047
Profit for the year				1,178,834
Assets				
Segments assets	3,690,931	-	-	3,690,931
Unallocated assets	1,557,565	1,968	-	1,559,533
Consolidated total assets				5,250,464

	Air-conditioning, Solar hot water and Insulation	**Other**	**Total**
	$	**$**	**$**

	Air-conditioning, Solar hot water and Insulation		Other	Total
	$		$	$
Year ended 30 June 2010	Continuing Operations	Discontinued Operations	Continuing Operations	
Liabilities				
Segment liabilities	5,280,182	-	-	5,280,182
Unallocated liabilities				-
Consolidated total liabilities				5,280,182
Year ended 30 June 2009				
Segment revenue				
Sales revenue to external customers	8,397,446	1,535,989	131,156	10,064,591
Other revenue	-	-	-	59,979
Total segment revenue	8,397,446	1,535,989	131,156	10,124,570
Non-segment revenue				
Interest revenue				69,023
Consolidated revenue				10,193,593
Result				
Segment result	(1,593,437)	(557,564)	131,156	(2,019,845)
Minority interest	245	-	-	245
Deferred tax benefit	33,047	-	-	33,047
Profit for the year	(1,560,145)	(557,564)	131,156	(1,986,553)
Assets				
Segment assets	3,356,571	470,480	-	3,827,051
Unallocated assets				807,887
Consolidated total assets				4,634,938
Liabilities				
Segment liabilities	5,426,452	305,097	-	5,731,549
Unallocated liabilities				35,430
Consolidated total liabilities				5,766,979

7 Discontinued Operations

The financial performance of the discontinued operation which has been incorporated into the statement of comprehensive income is as follows:

	Consolidated 2010 $	Consolidated 2009 $
Revenue from ordinary activities	**-**	1,527,963
Expenses from ordinary activities	**(71)**	(2,157,232)
Profit/(loss) from ordinary activities before income tax	**(71)**	(629,269)
Income tax expense	**-**	-
Profit/(loss) from ordinary activities	**(71)**	(629,269)
Minority interest	**-**	245
	(71)	(629,024)
Gain on sale (net of tax)	**-**	-
Net loss attributable to the shareholders of the company	**(71)**	(629,024)

Loss per Share

	2010	2009
Basic loss per share	-	(1.10)
Diluted loss per share	-	(1.10)

The net cash flows of the discontinued division which has been incorporated into the statement of cash flows are as follows:

	2010	2009
Net cash inflow (outflow) from operating activities	-	(389,848)
Net cash inflow (outflow) from investing activities	-	-
Net cash inflow (outflow) from financing activities	-	(57,787)
Net decrease in cash (used)/generated by the discontinuing operations	-	(447,635)

8 Income tax expense /(benefit)

(a) Income tax expense/(benefit)

	2010	2009
Current tax	**-**	-
Deferred tax	**(33,047)**	(33,047)
	(33,047)	(33,047)
Income tax attributable to:		
Profit from continuing operations	**-**	-
Profit from discontinued operations	**-**	-
Aggregate income tax expense	**(33,047)**	(33,047)

Deferred income tax (revenue) expense included in income tax expense comprises:

	2010	2009
Decrease (increase) in deferred tax assets	**-**	-

8 Income tax expense /(benefit) (continued)

(Decrease) increase in deferred tax liabilities	**(33,047)**	(33,047)
	(33,047)	(33,047)

(c) Numerical reconciliation of income tax expense to prima facie tax payable:

Profit/(loss) from continuing operations before income tax	**1,145,858**	(1,390,332)
Profit/(loss) from discontinued operations before income tax	**(71)**	(629,269)
	1,145,787	(2,019,601)
Income tax expense (benefit) calculated at 30%:	**343,736**	(605,880)
Tax effect of amounts which are no deductible (taxable) in calculating taxable income:		
Other assessable or non deductible items	**(26,325)**	2,449
Effect of tax concessions (research and development and other allowances)	**(281,867)**	(184,933)
Deferred tax asset not recognised in respect of tax losses and temporary differences	**(35,544)**	788,364
Deferred tax benefit on the equity component of convertible notes	**(33,047)**	(33,047)
Income tax expense / (benefit)	**(33,047)**	(33,047)

The Directors estimate that the potential deferred tax asset in respect of tax losses and temporary differences not brought to account amounted to **$2,567,550** (2009: $2,611,641) for the consolidated entity. These will be brought to account only if the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised, the consolidated entity continues to comply with deductibility conditions imposed by tax legislation and no changes in tax legislation adversely affects the consolidated entity in realising the benefit.

9 Cash and cash equivalents

	Note	Consolidated	
		2010	**2009**
		$	**$**
Cash at bank and on hand		**1,200,905**	1,233,419
Balances per consolidated statement of cash flows		**1,200,905**	1,233,419

10 Trade and other receivables

Trade receivables	**654,313**	491,904

Provision for impairment of receivables (note (a))	**(66,205)**	(151,148)
	588,108	340,756
Other receivables	**10,283**	(2,125)
	598,391	338,631

(a) Provision for Impairment of Receivables

Balance at the beginning of the year	**151,148**	54,191
Provision for impairment recognised during the year	**5,000**	227,969
Balance written off during the year	**(89,943)**	(131,012)
Unused amount reversed	**-**	-
Balance at end of year	**66,205**	151,148

11 Inventory

Raw materials	**210,491**	385,949
Finished goods	**1,089,658**	891,971
Provision for obsolescence	**(70,550)**	(47,027)
	1,229,599	1,230,893

12 Other Current Assets

Deposits	**6,404**	31,983
Prepayments	**66,055**	57,839
Staff loans	**(120)**	206,666
Other assets	**7,483**	-
	79,822	296,488

13 Property Plant & Equipment

Cost or fair value	**2,189,865**	2,771,362
Accumulated depreciation	**(1,607,651)**	(2,043,742)
Net book amount	**582,214**	727,620

Consolidated	**Plant & Equipment**	**Leased plant & equipment**	**Total**
	$	**$**	**$**
Year ended 30 June 2009			
Opening net book amount	263,697	760,000	1,023,697
Additions	160,329	-	160,329
Disposals	(147,190)	(250,554)	(397,744)
Depreciation charge	(45,460)	(13,202)	(58,662)
Closing net book amount	231,376	496,244	727,620
Year ended 30 June 2010			
Opening net book amount	231,376	496,244	727,620

13 Property Plant & Equipment (continued)

	Plant & Equipment	Leased plant & equipment	Total
Additions	$	$	$
Disposals	(43,448)	(16,319)	(59,767)
Depreciation charge	(107,650)	(67,841)	(175,491)
Closing net book amount	129,773	452,441	582,214

14 Intangible Assets

	Development	Other	Total
Consolidated	**$**	**$**	**$**
At 30 June 2008			
Cost	-	1,980	1,980
Impairment losses	366,542		366,542
Net book amount	366,542	1,980	368,522
Year ended 30 June 2009			
Opening net book amount at 1 July 2008	366,542	1,980	368,522
Development expenditure capitalised		-	-
Closing net book amount	366,542	1,980	368,522
At 30 June 2009			
Cost	366,542	1,980	368,522
Development expenditure capitalised	439,365	-	439,365
Net book amount	805,907	1,980	807,887
Year ended 30 June 2010			
Opening net book amount	805,907	1,980	807,887
Development expenditure capitalised	751,646	-	751,646
Closing net book amount	1,557,553	1,980	1,559,533
At 30 June 2010			
Cost	1,557,553	1,980	1,559,533
Accumulated amortisation	-	-	-
Accumulated impairment	-	-	-
Net book amount	1,557,553	1,980	1,559,533

15 Trade and Other Payables

	Consolidated	
	2010	2009
	$	$
Trade creditors	**439,720**	581,173
Sundry creditors & accrued expenses	**290,386**	455,284
GST payable	**91,288**	82,444
Other payables	**1,096**	1,746
	822,490	1,120,647

16 Provisions

	Consolidated	
	2010	2009
	$	$
Employee entitlements	**41,040**	86,481
Warranties (a)	**368,389**	376,653
Other provisions (b)	**141,437**	60,000
	550,866	523,134

(a) Provision for Warranty Claims

Provision for warranty claims is made in respect of products and services sold which are still under warranty at the balance date. The provision for warranty has historically been based upon selected percentage of total unit sales. The directors have made additional provisions during the year based on what they believe the company's liability will be according to experience.

(b) Other Provisions

These provisions relate to professional costs with respect to legal and audit fees.

17 Interest Bearing Liabilities

	Consolidated	
	2010	2009
	$	$
Current		
Lease liabilities (note 22)	**1,579**	39,892
Other facilities – current	**-**	149,095
Total current borrowings	**1,579**	188,987
Non – Current		
Lease liabilities (note 22)	**-**	6,074
Convertible notes	**3,822,630**	3,812,473
Total non current borrowings	**3,822,630**	3,818,547
Total Interest Bearing Liabilities	**3,824,209**	4,007,534

17 Interest Bearing Liabilities (continued)

(a) Other facilities

(i) Other facilities relates to the Trade Facility. In accordance with the security arrangements, there is a first ranking fixed and floating charge over inventories. The holder of the security does not have the right to sell the inventories (refer to note 11) other than in an event of default.

(ii) In accordance with the security arrangements, convertible note holders have a second ranking fixed and floating charge over all the assets and undertakings of the Group.

(iii) The face value of convertible notes and dates of maturity are as follows:

August 2012	$1,800,000
September 2012	$700,000
October 2012	$1,385,000
November 2012	$300,000

Interest of 10% applies to all outstanding convertible notes.

18 Deferred Tax liabilities

	Consolidated	
	2010 **$**	**2009** **$**
Deferred tax liability	**82,617**	115,664
Deferred tax liability comprises:		
Option premium reserve on Convertible Notes	**115,664**	148,711
Movement in deferred tax liabilities is as follows:		
Balance at beginning of year	**115,664**	148,711
Credited to income tax benefit	**(33,047)**	(33,047)
Balance at end of year	**82,617**	115,664

19 Contributed Equity

	Consolidated	
	2010	2009
	Shares	Shares
(a) Share capital		
Ordinary shares		
Balance at the start of the year	**64,089,314**	55,729,839
Shares Issued	**1,500,000**	8,359,475
Fully paid ordinary shares	**65,589,314**	64,089,314

	Consolidated	
	2010	2009
	$	$
Total contributed equity	**4,449,210**	4,530,703

20 Reserves

	Consolidated	
	2010 $	2009 $
(a) Reserves		
Convertible notes reserve	**385,238**	385,238
Share-based payments reserve	**94,300**	89,300
	479,538	474,538
Movements:		
Reserves		
Balance at start of year	**474,538**	388,238
Convertible notes issued	**-**	86,300
Share-based payments made	**5,000**	-
Balance at end of year	**479,538**	474,538
(b) Retained Losses		
Opening retained losses	**(6,096,361)**	(4,109,807)
Net profit/(loss) for the year	**1,178,834**	(1,986,554)
Closing retained losses	**(4,917,527)**	(6,096,361)
(c) Outside Equity Interests		
Share capital	**3**	3
Accumulated losses	**(40,942)**	(40,924)
Closing retained losses	**(40,939)**	(40,921)

21 Cashflow information

(a) Reconciliation of the operating profit after tax to the net cash flows from operations:

	Consolidated	
	2010	**2009**
	$	**$**
Profit/(loss) from ordinary activities after income tax	**1,178,834**	(1,986,554)
Cash flows excluded from profit attributable to operating activities		
Financing costs on convertible notes	-	160,164
Interest payable on convertible notes	-	108,078
Add/(subtract) non cash items:		
Depreciation	**175,491**	58,651
Net loss/(gain) on disposal of property, plant and equipment	**13,651**	7,364
Net loss/(gain) from foreign exchange	**1,397**	-
Impairment of staff loan	-	142,757
Bad debts expense	**3,068**	96,957
Interest income on employee loan	-	(29,817)
Share based payments	**5,000**	86,300
Changes in assets and liabilities, net of the effects of purchase and disposal of controlled entities:		
Assets		
(Increase)/decrease in receivables	**(264,225)**	329,099
(Increase)/decrease in inventories	**1,294**	766,828
(Increase)/decrease in other current assets	**216,666**	41,113
Liabilities		
Increase/(decrease) in payables	**(222,992)**	155,044
Increase/(decrease) in provisions	**27,731**	376,557
Increase/(decrease) in deferred tax liabilities	**(33,047)**	(33,047)
Cash flows from operations	**1,102,868**	279,494

(b) Disposal of entities

Blue Ridge WA Pty Ltd was sold during the 2009 financial year.

	Consolidated 2010 $	2009 $
Cash consideration	-	51,800
Assets and liabilities held at disposal date:		
Inventories	-	1,511
Property, plant and equipment	-	51,800
Cash	-	
Net gain/(loss) on disposal	-	(1,511)
Cash consideration	-	51,800
Net inflow of cash from disposal	-	51,800
Cash consideration	-	51,800
Cash received on receivables	-	-
Less: cash balances disposed	-	-
	-	51,800

22 Capital and Leasing Commitments

	2010	2009
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**154,770**	540,528
Later than one year but not later than five years	**-**	154,770
Later than five years	**-**	-
	154,770	695,298
Commitments in relation to finance leases are payable as follows:		
Within one year	**1,579**	41,384
Later than one year but not later than five years		6,138
Later than five years		-
Minimum lease payments	**1,579**	47,522
Future finance charges		(1,556)
Total lease liabilities	**1,579**	45,966
Representing lease liabilities (note 17):		
Current	**1,579**	39,892
Non-current	**-**	6,074
	1,579	45,966

23 Earnings Per Share

	Consolidated 2010	2009

	Cents	Cents
Total basic earnings / (losses) per share attributable to the ordinary equity holders of the company		
- from continuing operations	**1.82**	(2.38)
- from total consolidated operations	**1.82**	(3.48)

	Consolidated	
	2010	**2009**
	$	**$**
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share		
- from continuing operations	**1,178,905**	(1,357,285)
- from total consolidated operations	**1,178,834**	(1,986,554)

	Consolidated	
	2010	**2009**
	Number	**Number**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings / (losses) per share	**64,713,314**	57,026,332

24 Contingent Assets and Liabilities

There were no contingent liabilities and contingent assets not provided for in the financial statements of the consolidated entity as at 30 June 2010.

25 Related party transactions

	Consolidated	
	2010	**2009**
	$	**$**
Purchase of services		
Legal fees paid to Prestige Corporate Services Pty Ltd, an entity associated with Mr. Robert Nicholls	**12,861**	28,672
Management fees were paid and payable to Ezy Laminate Pty Ltd, a company associated with Mr. Ronald Sanders, for the day to day running and management of the Queensland operations of the Company	-	9,863
Consultancy fees paid or payable to William Buck (WA) Pty Ltd, an entity associated with Mark Collins	-	539

During the financial year, a non recourse loan made by the Company to former Managing Director, Ronald Sanders, during his tenure was written off. The original loan was for the purchase of ordinary shares in the Company to the value of $283,996. Upon Mr Sander's resignation it was determined that the full value of the loan was unlikely to be received and had consequently been impaired in the 2009 financial year. The Directors have determined that the remaining loan receivable of $158,438 was not recoverable from Mr Sanders and has been written off in the current financial year. The issued shares relating to this loan can be sold at the discretion of the Company.

26 Controlled Entities

Equity holding

Name of Entity	Country of incorporation	Class of shares	2010	2009
			%	%
Parent entity				
Cool or Cosy Limited				
Controlled entities of Cool or Cosy Limited				
Cool or Cosy (QLD) Pty Ltd	Australia	Ordinary	100	100
Cool or Cosy (WA) Pty Ltd	Australia	Ordinary	100	100
Morcanna Holdings Pty Ltd	Australia	Ordinary	100	100
Direct Air Installation Pty Ltd	Australia	Ordinary	50	50
Cool or Cosy Energy Technology Pty Ltd	Australia	Ordinary	100	100

27 Key management personnel

Information relating to key management personnel has been disclosed in the Director's Report.

28 Events subsequent to reporting date

No other matter or circumstance has arisen since the end of the financial year which is not otherwise dealt with in this report or in the Consolidated Financial Statements that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years, except for Morcanna Holdings Pty Ltd, whose total assets at 30 June 2010 amounting to $4,324, has been deregistered after the year end.

29 Parent entity financial information

(a) Summary of financial statements for the parent entity show the following aggregate amounts:

	2010	2009
	$	$
Balance Sheet		
Current assets	29,218	218,352
Total assets	2,584,953	3,635,107
Total liabilities	4,032,520	4,252,754
Shareholders' equity		
Issued capital	4,449,193	4,530,703
Reserves		
Share-based payments	479,538	474,538
Retained losses	(6,376,299)	(5,622,888)
	(1,447,568)	(617,647)
Loss for the year	(753,411)	(1,523,862)
Total comprehensive income (loss) for the year	(753,411)	(1,523,862)

29 Parent entity financial information (continued)

(b) Guarantees entered into by the parent entity

For information about guarantees given by the parent entity, please refer to Note 30.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009. For information about guarantees given by the parent entity, please refer to Note 30.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any contractual commitments as at 30 June 2010 or 30 June 2009.

30 Deed of Cross Guarantee

A deed of cross guarantee securing the liabilities of Cool or Cosy (QLD) Pty Ltd (was Natural Fibre Pty Ltd) against the assets of Cool or Cosy Ltd was entered into on 29 June 2006 for the purposes of meeting the requirements for a contractors building licence in Queensland.The parties to the agreement are:

• Cool or Cosy Ltd	Group Entity
• Cool or Cosy (QLD) Pty Ltd	Group Entity
• Cool or Cosy (WA) Pty Ltd	Trustee
• Morcanna Holdings Pty Ltd	Alternative Trustee

Statement of financial position As at 30 June 2010	Closed Group 2010 $
ASSETS	
Current assets	
Cash and cash equivalents	1,197,983
Trade and other receivables	598,391
Inventories	1,229,599
Other	79,821
Total current assets	3,105,794
Non current assets	
Property, plant and equipment	582,214
Other financial assets	1,834,993
Total non current assets	2,417,207
Total assets	5,523,001
LIABILITIES	
Current liabilities	
Trade and other payables	769,520
Provisions	525,847
Interest bearing liabilities	1,579
Total current liabilities	1,296,946
Non current liabilities	

Statement of comprehensive income	Closed Group 2010 $
Continuing operations	
Sales revenue	11,315,974
Cost of sales	(4,075,678)
Gross Profit	7,240,296
Other revenue from ordinary activities	209,404
Employment expense	(1,722,154)
Marketing expense	(1,698,154)
Equipment and plant expense	(621,506)
Consultants expense	(484,041)
Rental expense	(330,880)
Depreciation expense	(175,491)
Finance expense	(583,358)
Impairment expense	68,552
Motor vehicle expenses	(258,223)
Other expenses	(498,587)
Profit /(loss) from continuing operations before income tax	1,145,858
Income tax benefit/(expense)	33,047
Profit /(loss) from continuing operations	1,178,905

30 Deed of Cross Guarantee (continued)

Non current liabilities	
Interest bearing liabilities	3,822,630
Deferred tax liability	82,617
Total non current liabilities	3,905,247
Total liabilities	**5,202,193**
Net assets	**320,808**
EQUITY	
Issued capital	4,221,186
Reserves	479,538
Retained losses	(4,379,916)
Parent company interest	320,808
Total Equity	320,808

Discontinued Operations	
Revenue from ordinary activities	-
Expenses from ordinary activities	(71)
Loss before income tax from discontinued operations	(71)
Income tax benefit/(expense)	-
Loss from discontinued operations	**(71)**
Consolidated	
Profit /(Loss) is attributable to:	
Equity holders of the company	1,178,834
Other comprehensive income	
Foreign current translation	-
Cash flow hedge taken to equity	-
Other comprehensive income for the period	-
Total comprehensive income attributable to members of Cool or Cosy Limited	**1,178,834**

Note 31 Going Concern

The consolidated entity has forecast net losses from its existing insulation and air conditioning operations based on the prevailing cost structure for the financial year ended 30 June 2011, together with an overall net liability position and minimal cash from operations forecast for the same period, with no firm indication of when these businesses will return the group to a profitable position. These forecasts ignore the potential impact of the proposed commercialisation of the proprietary solar technology developed and owned by its subsidiary, Cool or Cosy Energy Technology Pty Ltd. Based on information presently available, the Company expects this initiative will have a positive impact on the profit and financial position of the consolidated entity in the 2011 financial year.

The group has on issue convertible notes with a total face value of $4,185,000. As outlined at note 17, these convertible notes are due to expire over a period commencing in the first quarter of the 2012/2013 financial year.

The Board and Management:

- has commenced a process of vigorous cost cutting as part of its continuing financial management;
- consider that based on information presently available, there are reasonable prospects of obtaining the required consent from convertible note holders to effect a restructuring of interest payment obligations relating to these notes in a manner which will allow the group to continue to operate as a going concern and implement the strategies identified in the Chairman and Managing Director's Overview and Directors' Report; and
- consider that these initiatives, together with the identified strategies including the on-going commercialisation of its patent technology, will result in a strengthening of the financial position of the group, and have determined that the going concern assumption remains appropriate at this time.

In the event the restructuring proposal initiative is not accepted by convertible note holders, the Board will need to re-assess the financial position of the Company. In this instance, unless additional capital is raised by the group, or appropriate refinancing facilities secured, then there is doubt as to the ability of the group to repay these convertible notes.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The Financial Statements comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and accompanying Notes to the Financial Statements are in accordance with the *Corporations Act 2001* and:

    (a) comply with Accounting Standards and the Corporations Regulations 2001; and

    (b) give 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.

2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

3. In the Directors' opinion, subject to the disclosures made in the Directors' Report and Chairman and Managing Director's Report regarding proposed arrangements with respect to the existing convertible notes, there are reasonable grounds to believe that the:

    (a) Company will be able to pay its debts as and when they become due and payable; and

    (b) Company and the group entities identified in Note 30 to the Financial Statements will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

4. The remuneration disclosures, included on pages 11 to 20 of the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2010 comply with section 300A of the *Corporations Act 2001*.

5. The Directors have been given the declarations by the chief executive officer and the person performing the chief financial officer function required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

David Hoff
Chairman

Robert Nicholls
Managing Director

Brisbane, 29 September 2010

DUNCAN DOVICO

AUDITORS' INDEPENDENCE DECLARATION

In accordance with section 307C of the Corporations Act 2001, I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 there have been:

(i) no contraventions of the auditor independence requirements as set out in 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 Cool or Cosy Limited and its controlled entities during the period.

Duncan Dovico Chartered Accountants

R. Megale

Rosemary Megale
Partner

Sydney, 29th September 2010.

DUNCAN DOVICO
CHARTERED ACCOUNTANTS
Level 12, 90 Arthur Street, North Sydney NSW 2060 ● PO Box 1994, North Sydney NSW 2059
T: (02) 9922 1166 ● F: (02) 9922 2044 ● E: email@duncandovico.com.au ● ABN: 19 173 326 199
Liability limited by a scheme approved under the Professional Standards Legislation

DUNCAN DOVICO

Independent Auditor's Report to the members of Cool or Cosy Limited

Report on the Financial Report

We have audited the accompanying financial report of Cool or Cosy Limited which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of cash flows and statement of changes in equity 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 ended 30 June 2010.

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 Interpretation) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control 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 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 judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, 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 met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the financial report.

DUNCAN DOVICO
CHARTERED ACCOUNTANTS
Level 12, 90 Arthur Street, North Sydney NSW 2060 ● PO Box 1994, North Sydney NSW 2059
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DUNCAN DOVICO

Auditor's Opinion

In our opinion:

a) the financial report of Cool or Cosy Limited is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the company's and 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 consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Inherent Uncertainty Regarding Going Concern

Without qualification to the opinion expressed above, the consolidated entity has net liabilities of $29,718 (2009: net liabilities $1,132,041) at 30 June 2010. The group has forecast operating losses for the 2011 financial year, with no indication of when the group will return to profitability. Further, as indicated at Note 31 and at Note 17, the group has on issue convertible notes with a total face value of $4,185,000. These convertible notes are due to expire over a period commencing in the first quarter of the 2012/2013 financial year.

Unless the proposed restructuring arrangements outlined in Note 31 to the financial statements are achieved or additional capital is raised by the group, or appropriate refinancing facilities secured, then there is significant doubt as to the ability of the group to repay these convertible notes, and meet its liabilities as and when they fall due.

Should measures taken by the Directors not result in a significant strengthening of the financial position of the consolidated entity, then uncertainty exists as to whether the consolidated entity can continue as a going concern, and whether it will realise its assets and distinguish its liabilities in the normal course of business and at the valued stated in the financial report.

DUNCAN DOVICO
CHARTERED ACCOUNTANTS
LEVEL 12, 90 ARTHUR STREET, NORTH SYDNEY NSW 2060 ● PO BOX 1994, NORTH SYDNEY NSW 2059
T: (02) 9922 1166 ● F: (02) 9922 2044 ● E: email@duncandovico.com.au ● ABN: 19 173 326 199

DUNCAN DOVICO

Report on the Remuneration Report

We have audited the Remuneration Report for the year ended 30 June 2010, included in the directors' report. 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 Cool or Cosy Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Duncan Dovico Chartered Accountants

R. Megale

Rosemary Megale
Partner
Sydney, 29th September 2010

DUNCAN DOVICO
CHARTERED ACCOUNTANTS
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ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

COOL OR COSY LIMITED AND SUBSIDIARIES

1. Shareholding

(a) Distribution of shareholders at 29th September 2010

Category (size of holding)	Number of shareholders 2010 '000's	Number of shareholders 2009 '000's
1-1000	24	21
1,001 – 5,000	101	107
5,001 – 10,000	117	126
10,001 – 100,000	202	208
100,001 and over	71	73

(b) The number of shareholding held in less then marketable parcels is 161.

(c) The names of the substantial shareholders listed in the holding company's register at the 29th September 2010 are

Shareholder	Number of shares '000's 2010	Number of shares '000's 2009
PPK Investment Holdings Pty Ltd	15,362,500	12,800,000
Wavet Fund No2 Pty Ltd	5,247,500	5,300,000
Equipment Company of Australia Pty Ltd	4,000,000	4,000,000

(d) Voting Rights

The consolidated entity has one class of ordinary shares with equal voting rights attached to them.

(e) Twenty largest shareholders

Name	Number of ordinary fully paid shares held '000's	Percentage held of listed ordinary capital %
PPK INVESTMENT HOLDINGS PTY LTD	15,362,500	23.422
WAVET FUND NO 2 PTY LTD	5,247,500	8.001
EQUIPMENT COMPANY OF AUSTRALIA PTY LIMITED	4,000,000	6.099
MR MARIO DI LALLO	2,183,094	3.328
TONY PAGANO PTY LTD <PAGANO SUPER FUND A/C>	2,181,829	3.327
MR PETER MITCHELL ROBERTS	2,145,093	3.270
BOUTA PTY LIMITED	2,059,328	3.140
EZY LAMINATE PTY LTD <LS FAMILY A/C>	1,924,642	2.934
COOL OR COSY (QLD) PTY LTD	1,807,894	2.756

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

Name	Number of ordinary fully paid shares held '000's	Percentage held of listed ordinary capital %
HAAC PTY LTD <HAAC UNIT A/C>	1,555,540	2.372
BOUTA PTY LIMITED <JB MARTEL PRACTICE S/F A/C>	1,478,614	2.254
CITICORP NOMINEES PTY LIMITED	1,035,000	1.578
KYLE PARADE PTY LTD <PLAYER SUPER FUND GV A/C>	1,026,012	1.564
SUPERMAC ONE PTY LTD <SUPERMAC S/F A/C>	909,000	1.386
WILDAM INVESTMENTS PTY LTD <HOFF FAMILY SUPER FUND A/C>	700,000	1.067
MR RONALD ALLAN SANDERS & MRS LEANNE JUDITH SANDERS <THE R & L SANDERS S/F A/C>	621,364	0.947
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	600,000	0.915
MR GEOFFREY CHARLES GRACE	550,000	0.839
PBT HOLDINGS PTY LTD	500,000	0.762
PRESTIGE CORPORATE SERVICES PTY LTD <NICHOLLS FAMILY SUPER A/C>	440,000	0.671
	46,327,410	**70.633**

2. The name of the company secretary is:

Mr Robert Nicholls

3. The address of the principal registered office in Australia is:

36 Computer Road, Yatala, Queensland 4212
Telephone: (07) 3297 4444
Fax: (07) 3297 4455
Email: enquiries@coolorcosy.com.au

4. Registers of securities are held at the following addresses:

New South Wales
Registries Limited
Level 7
207 Kent Street, Sydney NSW 2000
Telephone: 1300 737 760
Fax: 1300 653 459
Email: registries@registries.com.au

5. Stock Exchange Listing

Quotation has been granted for all ordinary shares of the company on all member exchanges of the Australian Securities Exchange Ltd.

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CORPORATE DIRECTORY

Cool or Cosy Limited

ABN 83 103 472 751

Registered Office

36 Computer Road Yatala QLD 4207
Telephone: (61 7) 3297 4444
Facsimile: (61 7) 3297 4455
Web Address: www.coolorcosy.com.au

Directors

David Hoff - Non-Executive Chairman
Robert Nicholls – Managing Director
John Smith – Non-Executive Director

Company Secretary

Robert Nicholls

Share Registry

Registries Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Telephone 02 9290 9600
Facsimile 02 9279 0664
www.registries.com.au

Auditor

Duncan Dovico
Level 4,
5-9 Harbourview Crescent
Milsons Point NSW 2061

Australian Securities Exchange Information

Cool or Cosy Limited is listed on the Australian Securities Exchange under the ASX code: COS.

Cool or Cosy

total comfort solutions