the key to the cloud

Hyro Ltd Annual Report 2009

hyro

Hyro Office Locations

AUSTRALIA

Brisbane Office

Level 1, 500 Brunswick Street
Fortitude Valley (Brisbane) QLD 4006
Australia
P: 1300 800 500
Int'l: +61 (0)3 9673 7399
F: +61 (0)7 3024 1570

Canberra Office

Level 1, 19 Barry Drive
Turner ACT 2612
Australia
P: 1300 800 500
Int'l: +61 (0)3 9673 7399
F: +61 (0)2 6290 9699

Melbourne Office (Head Office)

Level 7, IBM Tower
60 City Road
Southbank VIC 3006
Australia
P: 1300 800 500
Int'l: +61 (0)3 9673 7399
F: +61 (0)3 9690 9204

Sydney Office

Level 5, 10-14 Waterloo Street
Surry Hills NSW 2010
Australia
P: 1300 800 500
Int'l: +61 (0)3 9673 7399
F: +61 (0)2 9212 4811

THAILAND

Bangkok Office

Suite 701, Level 7
161/1 SG Tower 1 Rajdamri Rd
Pathumwan 10330
Thailand
P: +66 (0)2 651 8750
F: +66 (0)2 651 8751

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The Hyro Board of Directors

Directors Serving at Year End

Robert Clarke
Non-Executive Chairman

Bill Votsaris
Executive Director and Chief Executive Officer

Selwyn Shapiro
Non-Executive Director

Victor Aghtan
Non-Executive Director
(Appointed 4th June 2009)

The Senior Management Team

Bill Votsaris
Executive Director and Chief Executive Officer

Michael Hodder
Director – Partner Alliances

Harry Pouliassis
Director – Client Delivery

Stan Levine
Director – Identity Management

Mac Walker
Director – Digital Services

Derreck Massuger
Chief Operating Officer

Chris Kokkas
Director – Technology

Thomas Weddin
Director – Northern Region Sales

John Demelis
Director – Southern Region Sales

CEO and Chairman's Commentary

The results reported in this 2009 Annual Report for Hyro Limited, underscore the commitment made by the Board and Management at the beginning of this year to finally relieve the company of the negative legacy issues that have undermined the financial performance of the company and frequently provided distractions from focussing on business-building initiatives.

As many of these legacy issues have now been extinguished, the commercial performance of the company in 2009 demonstrates a marked improvement on prior years and provides a very solid platform from which to build upon in the coming year.

Commercial Performance

The key financial data for the company for the year is as follows:

	2009 $'000	2008 $'000
Revenue from Continuing Operations	39,588	54,823
Revenue from Discontinued Operations	173	5,782
Total Revenue	39,731	60,605
Net Loss from Operations before individually significant items	(826)	(11,141)
Individually Significant Items	11,722	(36,548)
Net Earnings	15,352	(45,106)
EPS (Cents per Share) from continuing operations	2.08c	(7.87)c
Number of shares	642,178,797	535,128,797

Underpinning these figures is a number of other important milestones:

- increase in net earnings from ($45,106k) to $15,352k;
- reduction in net loss before individually significant items from ($11,141k) to ($826k);
- improvement in the Balance Sheet net asset/(liabilities) position from ($22,379k) to ($5,266k);
- reduction in commercial debt from $21,702k to $1,351k

Furthermore, Hyro's 2009 performance was achieved in an economic environment characterised by:

- an extremely tight credit market;
- world governments acting to avert recessions in their respective economies;
- many private and public companies, including household names, collapsing or being forced to significantly downsize; and
- many organisations being forced to reduce all expenditure.

Notwithstanding the adverse economic environment, Hyro has continued to demonstrate a significant improvement in its day to day operational performance and at the same time significantly reduce its commercial debt. It is worth noting that Hyro was able to sustain its position in the market without raising additional capital.

Business Alignment

An exhaustive review of all business units within the Hyro Group was conducted throughout 2008 and 2009, to assess their commercial and strategic value to the group.
The review of the Hyro Asia operations led to the following conclusions:

- The business acquisitions made in mainland China and Hong Kong in 2007 were not going to deliver the anticipated financial returns and therefore should be closed. Both offices were closed during 2009.
- Hyro Thailand's business was primarily a local Thailand ICT business. While this business has always been profitable, the Australian operations had not fully leveraged its outsourcing revenue earning potential. Localised costs and prices provided a small Australian dollar contribution to the group.
- As a consequence, during 2009 the Hyro Group integrated its Hyro Australia and Asia service delivery business units to provide a solid foundation for its offshore creative and application development services. At the conclusion of 2009, more than 50% of Hyro Asia's revenue was generated from providing offshore creative and development services in conjunction with Hyro Australia. This change in Hyro Asia's revenue mix led to an increase in their contribution in the 2009 financial year.

CEO and Chairman's Commentary (continued)

The review of the Hyro Australia's operations led to the following conclusions:

- The IBM hardware value added reseller business, which was acquired as part of the Synergy Plus acquisition, was facing decreasing margins associated with the range of hardware it resold. This business was not considered integral in Hyro's future strategic direction and was sold to ComputerCORP during 2009. The application development and software specialisation service delivery units were integrated into Hyro Australia soon after Synergy Plus' acquisition in 2007 and remain with Hyro.

- The proceeds from the sale of the Synergy Plus hardware reseller business assisted Hyro continue operations and to complete the Lehman Brothers settlement without the need to raise additional capital.

The market opportunity continues to grow

Hyro's primary focus is the delivery of services to organisations that use digital channels to interact with their customers.
Hyro provides a suite of services that allow organisations to create positive customer experiences across digital channels, ranging from mobiles, surface computing and rich internet applications to intranet and extranet platforms.

Independent market analysts and commentators continue to highlight the growth in digital content consumption in Australia and other key western markets.

While there is no single indicator that reflects Hyro's market opportunity, there is one trend that underpins Hyro's business: the migration of advertising spend from traditional analogue media to digital media, as audience and usage of digital media increases.

CEO and Chairman's Commentary (continued)

Some market firsts occurred in 2010:

(i) In Australia for the first time internet usage time has exceeded TV viewing numbers.

Nielsen's 2010 Internet and Technology Report found that the average Australia internet user now spends 17.6 hours per week online. This is an increase of 9% over the last 12 months, and a lift of 28.5% since 2007.

The report highlighted the fact that the 16-29 year age group – which is very attractive to advertisers – spend an average of 22 hours online. Internet users over 50 almost spend as much time online as they do watching television.

Australian household names are continuing to shift more of their traditional marketing budgets into online and social media channels.

For example, JetStar recently announced a shift of up to 40% of its marketing budget to social media and online channels. JetStar's head of marketing and PR, David May, said the company had "tested the waters" of social media in 2009 with "huge success" and that with traditional media becoming more expensive and fragmented, social media was the "next obvious medium for marketing".

The Qantas-owned airline has used social media for new route launches, special offers and announcements, responds to customer queries and posts sales and news updates.

(ii) In the US for the first time online advertising and digital strategies spend has overtaken traditional marketing mediums

New figures released by Outsell, which provides research and advisory services to the publishing and information industries, indicate that US companies will spend more this year on digital and online advertising and marketing than on print for the first time ever.

The US study shows companies will spend US$119.6 billion on online and digital campaigns compared with US$111.5 billion on newspaper and magazine advertisements and other print campaigns

Building the future

The focus for 2010 is to grow Hyro's digital services business in the enterprise market segment. The timing is right for Hyro, following the restructuring of its operations over the last two years to take advantage of the changes in how organisations are using digital channels.

As part of the company's business plan for 2010, Hyro has launched a number of initiatives designed to increase revenue contributions from long-term service contracts and from Hyro-owned intellectual property (IP), including:

- Hyro is forming an alliance with one of Australia's largest media groups for media placement and buying. This will allow Hyro to provide a complete digital outreach capability for our clients by co-ordinating the build, deployment and promotion of digital services such as websites.
- A new business unit has been created which focuses on growing Hyro's Managed Content Services business, which provides outsourced content production, management and distribution.
- Hyro's Identity and Access Management product, idaptive, has been formally separated into a product development business unit. Implementation and support services have been transitioned to the Technology delivery groups. This provides Hyro with an ability to accelerate the sale and distribution of idaptive's technology beyond Hyro's existing client base.
- In 2009, Hyro Australia began to leverage its investment in Hyro Asia, headquartered in Bangkok Thailand, by undertaking a number of offshore digital projects. As part of Hyro's services delivery strategy for 2010, Hyro will be providing its clients with the option to take advantage of this hybrid service, blending project management, customer experience and technology specialist staff from Hyro Australia with Hyro Asia's solution development services. This provides Hyro's clients with a quality outcome at a competitive price.

Hyro is also preparing itself to meet the future challenges and opportunities of the rapidly changing technology platforms that enable digital channels. To capitalise on our digital services capabilities, Hyro is enhancing three key internal capabilities:

- Digital Services
- To create positive customer experiences combining new devices and the very best interaction design.
- Cloud Services
- To support ongoing changes in technology delivery platforms.

CEO and Chairman's Commentary (continued)

- Single sign on and identity management
- To connect the devices to the cloud services providing the support for the digital channels will require identity and access management solutions and skills.

While the legacy issues are now predominantly behind us, the achievements in 2009 have come at a significant cost, both in terms of financial performance and the level of Executive Management time and focus spent on addressing them.

However, for 2010 and beyond, the business and its shareholders can now look forward to a company performance that more closely reflects Hyro's actual day-to-day operations and the opportunities created by the market's growing appetite for digital customer engagement.

We would like to thank all our shareholders for their continued support of Hyro Limited.

Bill Votsaris
Chief Executive Officer and Executive Director

Robert Clarke
Chairman

Directors' Report

Your Directors submit their report for the year ended 31 December 2009.

DIRECTORS

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

Bill Votsaris
Robert Clarke
Selwyn Shapiro
Victor Aghtan (Appointed 4th June 2009)
Jeff Pope (Appointed 3rd March 2010)

Robert Bladier (Resigned 1st June 2009)
David Nott (Appointed 8th October 2009)
(Resigned 20th November 2009)

Directors' Report (continued)

DIRECTORS' QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

DIRECTORS CURRENTLY SERVING

Vasilios (Bill) Votsaris

CEO – Executive Director

Experience

Bill Votsaris has a professional history of more than 25 years in technology and services related businesses, both as a successful technologist in major international corporations and as an entrepreneur and commercial manager.

Bill started his professional career as a qualified electronics engineer, first working with Alcatel. Bill was identified as a candidate for accelerated development and was relocated to Silicon Valley. After 7 years with the company, Bill accepted a position with Hewlett Packard in Australia.

In 1988, Mr Votsaris established Paragon, a specialist SME technology company with 50 employees and clients throughout Victoria. During 2003 Mr. Votsaris acquired an equity interest in SynergyPlus which grew in three years to a profitable $40m per annum business.

In May 2007, Synergy was acquired by Hyro. Bill joined the company in the role of Chief Operating Officer with a specific focus on the ongoing management of the Synergy business and the management of integration of the business and systems of the merged group.

Bill is the Chief Executive Officer and an Executive Director of Hyro Limited, having taken the position in February 2008.

Interest in Equities

Micro Parts Direct Pty Ltd ATF the Micro Parts Direct Executive Superannuation Fund - 2,412,018 shares in Hyro Limited

Interest in Contracts

Nil

Special Responsibilities

Responsible for the overall business management as Chief Executive officer.

Other Current Listed Company Directorships

From	To	Company
22/12/2008	Current	Synergy Plus Limited

Other Listed Company Directorships Held in Previous 3 Years

None

Robert Clarke

Non-executive Chairman

Qualifications

BA.

Experience

Rob Clarke, has over 25 years of senior management experience in a variety of industries including advertising, professional sports administration and financial services.

Clarke's advertising career encompassed working in multinational agencies on a number of global clients in Australia, New Zealand and the UK.

As CEO of Leo Burnett in Australia/New Zealand in the late 90's, Clarke was a leading proponent of developing expertise in the emerging digital and interactive services industry which underpinned the agency winning the Ad News and B&T Agency of the Year awards in 2000. Shortly thereafter, Clarke accepted the role to head up Bcom3 in Australia/New Zealand, the holding company responsible for Leo Burnett, Starcom, DMB& B and a number of other communications and media companies. In total, Bcom3 employed 500 staff in 18 companies with a combined revenue of $90 million. At this time, Clarke also held the position as Chairman of the Advertising Federation of Australia (AFA).

In 2002, Bcom3 was purchased by the Publicis Group. Clarke then embarked on a 'career sea change' and took on the role of Chief Executive at Brumbies Rugby. During his 3 year tenure, Clarke led an aggressive restructuring programme to transform the Brumbies business into a competitive and profitable performer both on and off the field culminating in the team winning its second Super 14 title in 2004.

Upon his return to Sydney, Clarke joined the Australian Rugby Union as Chief Operating Officer, a position he relinquished at the end of 2006.

Clarke joined Rockridge Group, a boutique investment company in 2007 and is actively involved in a management capacity in companies in the financial services and fresh produce industries.

Interest in Contracts

Nil

Interest in Equities

3,650,000 shares in Hyro Limited

Clarvir Pty Ltd ATF Carpe Diem Superannuation Fund - 220,033 shares in Hyro Limited

Special Responsibilities

Chairman of the Board, Member of the Audit Committee and Nomination and Remuneration Committee.

Directors' Report (continued)

DIRECTORS CURRENTLY SERVING

Robert Clarke (continued)

Other Current Listed Company Directorships

None

Other Listed Company Directorships Held in Previous 3 Years

None

Victor Aghtan

Non-executive Director

Qualifications

BCom

Experience

Mr Aghtan is the managing director of Westan Pty Ltd, a substantial shareholder of Hyro Limited. He was also a member of Hyro's Board of Directors from 23 April 2007 to 1 April 2008. Prior to Hyro's acquisition of Synergy Software Holdings Limited, Victor was the Chairman of Synergy's Board of Directors and was instrumental in turning Synergy around over a 3 year period from near bankruptcy to a thriving business.

Over the last three decades, Victor has been Managing Director of Western Digital Malaysia, Group Managing Director of GBH Industries, a KLSE listed company in Malaysia, and Managing Director of Western Digital Singapore, which has over 4,000 employees.

In 1989 Victor moved to Australia and founded Westan Pty Ltd, an IT/CE distribution company, which now has offices throughout Australia and represents internationally recognisable brands such as Samsung, Western Digital, Epson and Infocus.

Interest in Equities

4,000,000 shares in Hyro Limited

Westan Pty Ltd - 35,287,648 shares in Hyro Limited

Interest in Contracts

Nil

Special Responsibilities

Nil

Other Current Listed Company Directorships

None

Other Listed Company Directorships Held in Previous 3 Years

None

Selwyn Shapiro

Non-executive Director

Qualifications

CA (SA)

Experience

Selwyn Shapiro is a Chartered Accountant (SA) with over thirty five years of finance experience with advertising agencies in South Africa, USA and Australia.

He was previously group CFO for Grey Advertising and Leo Burnett in Australia. Most recently he was National CFO for BCom3 and subsequently set up and managed a shared service facility for the Publicis Group in Australia.

Selwyn has broad experience in the operation of companies in the marketing services area and has had a wealth of experience in mergers and acquisitions.

Interest in Equities

440,000 shares in Hyro Limited.

Interest in Contracts

Nil

Special Responsibilities

Member of the Audit Committee and Member of the Nomination and Remuneration Committee

Other Current Listed Company Directorships

None

Other Listed Company Directorships Held in Previous 3 Years

None

Directors' Report (continued)

DIRECTORS CURRENTLY SERVING

Jeff Pope

Non-executive Director

Experience

Mr Pope has a breadth of experience having worked in the IT industry since 1975. His career spans roles in operations, systems programming and sales, including regional senior management responsibilities.

Prior to 1996, Mr Pope worked for blue chip companies such as Citibank, Toyota and Fujitsu. From 1997 - 2003, as Vice President of Rational Software, he spearheaded the dynamic growth of the company operating in 24 cities across 11 countries in the Asia Pacific Region. The success of Rational was underpinned by consistent organic growth and merger and acquisition activity culminating in IBM buying the company in 2003.

Mr Pope joined Agitar Software in 2004 as Vice President, Asia Pacific Region and his principal role was to establish the business from scratch across the region. After successfully executing the growth strategy and building a significant operation, the business was sold to McCabe Software in 2008.

During 2007, Mr Pope was invited to join the board of Software Traction where he continues to provide high level insight with sales strategy and large customer relationships.

Interest in Equities

Nil

Interest in Contracts

Nil

Special Responsibilities

None

Other Current Listed Company Directorships

None

Other Listed Company Directorships Held in Previous 3 Years

None

DIRECTORS NO LONGER SERVING

Robert Bladier

Resigned 1st June 2009

Interest in Equities

Nil

Interest in Contracts

Nil

Other Current Listed Company Directorships

None

Other Listed Company Directorships Held in Previous 3 Years

From	To	Company
22/12/2008	25/5/09	National Stock Exchange of Australia Limited

David Nott

Resigned 20th November 2009

Interest in Equities

Nil

Interest in Contracts

Nil

Other Current Listed Company Directorships

None

Other Listed Company Directorships Held in Previous 3 Years

None

Directors' Report (continued)

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the Directors in the shares and options of Hyro Limited were:

	Number Of Ordinary Shares	Number of Options Over Ordinary Shares
Bill Votsaris	2,412,018	10,702,576
Robert Clarke	3,870,033	Nil
Victor Aghtan	39,287,648	Nil
Selwyn Shapiro	440,000	Nil

COMPANY SECRETARY

Paul Southwick
Resigned 30 March 2009

John Wilks

Appointed 30 March 2009

Resigned 19 February 2010

Leanne Ralph
Appointed 19 February 2010

Qualifications

B. Bus. CPA. ACIS

Experience

Leanne has over 20 years experience in Chief Financial Officer and Company Secretarial roles for various publicly listed and unlisted entities. Leanne is a Principal Client Advisor for PDY Pty Ltd and being a qualified Chartered Secretary, heads up the division which provides these outsourced company secretarial services to companies.

DIVIDENDS

No dividends have been paid or declared since the end of the previous financial year, nor do the Directors recommend the declaration of a dividend.

CORPORATE INFORMATION

Hyro Limited is a company limited by shares that is incorporated and domiciled in Australia.

The registered office of the Company is: Level 7, 60 City Road, Southbank, Victoria, 3006, Australia.

The principal place of business of the Company is: Level 7, 60 City Road, Southbank, Victoria, 3006, Australia.

The Group employed 147 employees at 31 December 2009 (2008: 332 employees).

Directors' Report (continued)

PRINCIPAL ACTIVITIES

Hyro is at the forefront of the digital transformation that is reshaping the way all businesses and governments engage with, sell to, service and interact with consumers.

Hyro's service offerings enable clients to adapt and profitably respond to the twin disruptive market forces of technological change and shifting consumer behaviour, and to lead their industry sectors in transforming their business models and implementing customer-focused brand, product and service experiences.

Hyro provides the services, technical capabilities and thought leadership that enable these organisations to leverage digital channels such as the internet, mobile phones and interactive digital television for growth and profitability. In short, Hyro provides is clients with the tools and capabilities for delivering a superior customer experiences across digital channels and to gain a sustainable competitive advantage in today's dynamic market environment.

OPERATING AND FINANCIAL REVIEW

Additional information on the operations and financial position of the group, its business strategies and prospects is set out in the CEO and Chairman's Commentary which commences on page 4 of this Annual Report.

	2009 $'000	2008 $'000
Operating Revenue	39,588	54,823
Operating loss before individually significant items	(826)	(11,141)
Individually Significant Items	11,723	(36,548)
Income tax benefit	4,455	2,583
Profit /(loss) for the period after individually significant items	15,352	(45,106)
Profit /(loss) attributable to minority interests	–	–
Net Profit /(loss)	15,352	(45,106)
Individually significant items		
Impairment of Goodwill & Intangible Assets	(5,561)	(23,423)
Amortisation of Intangible Assets	(1,778)	(3,602)
Gain on Debt Derecognition – Convertible Note	18,652	–
Loss on Sale of Synergy Business	(919)	–
Asset write-offs	(867)	(2,608)
Restructuring	(1,118)	(3,774)
Profit/(loss) from discontinued operations	3,314	(3,141)
Total	11,723	(36,548)

Operating Results for the Year

The profit after tax of the consolidated entity for the year ended 31 December 2009 was $15.4 million (2008: loss of $45.1 million).

The profit after tax of the Company for the year ended 31 December 2009 was $19.3 million (2008: loss of $42.5 million).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Settlement of Lehman Brothers Convertible Note

In August 2009, the culmination of previous discussions with the Lehman Brothers liquidators crystalised with the issue of 107,000,000 Hyro Limited shares and a cash payment of $757,000 to Lehman Brothers International (Europe) (in administration) to extinguish the convertible note liability of $21,441,933 in line with an agreement negotiated with the liquidators in 2008. In addition, the fixed and floating charges which existed over Hyro's business were also released. The gain on debt recognition was $18,651,934 (refer to note 6(b)).

Directors' Report (continued)

Sale of Infrastructure Business Unit

In March 2009 Hyro entered into an agreement for the sale of its infrastructure solutions business unit to ASX listed technology group Synergy Plus Limited (previously ComputerCORP Limited). The sale included the IBM infrastructure business, including mid-range server and storage solutions, related managed and hosting services, Synergy and Synergy Plus trademarks, and 31 staff.

Further details pertaining to the sale are included in Note 16 to the accounts.

New Zealand Operations

In February 2009, Hyro (NZ) Limited was closed and the company is now liquidated. This decision was based on the business in New Zealand being unprofitable and non-core business to the group.

China Operations

Following the decision in December 2008 to close non-core and unprofitable business units in China, Getronics (HK) Limited and Bejing Mei Advertising Company Limited were placed into liquidation in March 2009.

Australia Taxation Office Debt

In February 2009 an agreement was negotiated with the Australian Taxation Office. The confidential agreement provides for an agreed repayment schedule of not less than three years.

Directors' Report (continued)

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There have been two events which occurred after the balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

ATO Agreement

Amounts owing to the Australian Taxation Office (ATO) are disclosed in the statutory accounts as part of Current Liabilities. It is relevant to note that the Group has an ongoing payment plan agreement with the ATO. The agreement, most recently confirmed in writing by the ATO after balance date in February 2010 provides for minimum repayments of overdue amounts of $1,200,000 in the twelve months to 31 December 2010.

Share Issue to Executives

In March 2010, Hyro allotted 19,378,000 shares to key executives as a performance incentive and to align employee interests with the revenue and profit generating goals of the company.

This allotment equated to 3% of the total shares on issue at the time.

As announced to the ASX, the shares were issued at zero cost, had no trading restrictions attached to them and were issued on terms equal with other fully paid ordinary shares already quoted.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

All information as to the future likely developments have been disclosed in this annual report. The Directors consider that any other information on the likely developments which are likely to result in unreasonable prejudice to the group. After several years of expansion and growth, the Directors intend to consolidate all of the group's operations until the Board is satisfied that the group's operations are efficient, profitable and cash flow positive. Except for the matters disclosed in this annual report there were no other significant changes in the state of affairs of the group not otherwise disclosed.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Directors' Report (continued)

REMUNERATION REPORT (Audited)

This report details the nature and amount of remuneration, including prescribed disclosures under the *Corporations Act 2001*, for each director and member of the *Key Management Personnel* ('KMP') for the consolidated entity and the company (the 'Parent') and *relevant group executives of the consolidated entity and company executives* (as each of these italicised items is defined in the *Corporations Act 2001*) receiving the highest remuneration for the year ended 31 December 2009.

(a) Remuneration policy

The Nomination and Remuneration Committee is responsible for reviewing the compensation arrangements for the Chief Executive and the adequacy of fees paid to non-executive Directors so as to ensure that remuneration packages and fees properly reflect the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating appropriately qualified and experienced people.

Key features of the remuneration of Directors are:

- Remuneration of the Chairman and non-Executive Directors is determined by the Nomination and Remuneration Committee from the maximum amount available for distribution to the non-Executive Directors as approved by shareholders. Currently this amount is set at $400,000 per annum in aggregate, approved at the 2007 Annual General Meeting.
- Non-Executive Directors are remunerated by means of cash benefits. They are not permitted to participate in performance based remuneration practices unless approved by shareholders. The Company will generally not use options as a means to remunerate non-Executive Directors and will continue to remunerate those Directors by means of cash.
- Hyro ceased providing retirement benefits for its Directors in 2008.

Executive Directors do not receive Directors' fees.

The remuneration of the KMP is determined by the Chief Executive Officer, under delegated authority of the Board of Directors. In exercising this responsibility, the Chief Executive Officer will give consideration to relevant independent and market data so as to ensure that remuneration packages and fees properly reflect the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating appropriately qualified and experienced people.

Executive Directors, KMP and other employees of the company may receive bonuses based on specific goals either in relation to their own position and/or the overall performance of the company. Where such bonus schemes are in place for an Executive Director or KMP, this is disclosed in this Directors' Report.

Hyro operates an Employee Performance Options Plan ('EPOP') approved by the shareholders. This plan is open to Executives, Executive Directors and KMP under the same qualification criteria as other employees. The options granted under the EPOP, are subject to restrictions which prevent the transfer or sale of the options and therefore remove the "at risk" aspect of those options. This is enforced via a provision of the Options Agreement executed by each employee as consent to participate in the EPOP. Where required, Executive Director and KMP participation in this scheme is disclosed in this Directors' Report.

The Hyro Board believes that these policies are appropriate and effective in attracting suitable candidates for the various director, executive and KMP positions.

(b) Company performance, shareholder wealth and director and executive remuneration

The company has had an incentive program in place for the Chief Executive Officer for the 2008 and 2009 years. This program has linked the incentive payable to the Chief Executive Officer to certain criteria relating to the interest of shareholders and the development of shareholder value. The details of this incentive program for 2008 and 2009 are disclosed in this Remuneration Report in item (i).

Unless otherwise stated in this Directors' Report for a specific KMP, the alignment of KMP and other Executive Remuneration to Company performance and shareholder wealth is achieved through participation in the EPOP. Under the terms of the EPOP, the exercise price or the methodology for determining the exercise price, is determined by the board. The general conditions of the EPOP provide a performance component with relation to the options granted to KMP under the plan. Specifically, these conditions provide that the vesting entitlement to options granted under the scheme requires the maintenance of a minimum average performance rating of "Satisfactory" for all performance appraisals during the year in which options are granted. Management and enforcement of this performance condition is achieved through the company employee performance management system and all employees of the company, including KMP are bound to participate in this system as a term of their employment contract.

Where a specific performance incentive for an Executive Director or KMP is based on performance criteria other than company performance and shareholder wealth, the specific criteria on which that performance incentive is to be paid is disclosed in the description of the Employment Contracts for that Executive Director or KMP.

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

(c) Consequences of company performance on shareholder wealth

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

	2009	2008	2007	2006	2005
Earnings Per Share (cents)	2.08	(7.87)	(5.17)	(0.21)	(5.5)
Full year ordinary dividends per shares (cents)	Nil	Nil	Nil	Nil	Nil
Year end share price	$0.031	$0.020	$0.180	$0.225	$0.075
Shareholder Return (annual)	55.0%	(88.9%)	(20.0%)	200%	(16.7%)

The above table shows the annual returns to shareholders based on the change in the listed market value of the shares during the year.

(d) Details of Key Management Personnel

The following persons were the Directors of Hyro Limited during the financial year:

Directors		
Bill Votsaris	CEO – Executive Director	
Robert Clarke	Non-Executive Chairman	
Robert Bladier	Non- Executive Director	(Resigned 1st June 2009)
Selwyn Shapiro	Non-Executive Director	
Victor Aghtan	Non-Executive Director	(Appointed 4th June 2009)
David Nott	Non- Executive Director	(Appointed 8th October 2009) (Resigned 20th November 2009)

In addition, the following people were the Key Management Personnel (including the 5 highest paid executives) of Hyro Limited for the financial Year.

Executives		
Terence Cameron	Finance & Administration Officer	
Paul M Southwick	Chief Financial Officer	(Resigned 9th April 2009)
Richard Lord	Chief Marketing Officer	(Resigned 8th May 2009)
Michael Hodder	Director - Partner Alliances	
Bridee Clifton	Director - Human Resources	(Resigned 9th October 2009)
Chris Kokkas	Director - Technology	
Harry Pouliassis	Director - Client Delivery	
Stan Levine	Director – Identity Management	
Derreck Massuger	Chief Operating Officer	
John Wilks	Corporate Lawyer	(Appointed 30th March 2009) (Resigned 19th February 2010)
Thomas Weddin	Director – Northern Region Sales	
John Demelis	Director – Southern Region Sales	(Appointed 30th November 2009)
Mac Walker	Director – Digital Services	

(e) Remuneration of Key Management Personnel for the year ended 31 December 2009 (Consolidated)

Details of compensation key management personnel and other executives of Hyro Limited are set out below:

Total Remuneration of Directors, Executive Directors and Key Management Personnel	2009 $	2008 $
Short-term employee benefits	2,559,327	2,233,341
Post-employment benefits	138,096	103,099
Other long-term benefits	_	21,505
Termination benefits	169,881	378,886
Share-based payments	57,484	179,335
Total	**2,924,788**	**2,916,166**

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

(e) Remuneration of Key Management Personnel for the year ended 31 December 2009 (Consolidated) (continued)

	Short-Term			Post Employment	Long Term Benefits	Share Based Payment			Proportion of remuneration that is performance based	% of Value of remuneration that consists of share Based Payments
31 December 2009	Cash Salary & Fees	Short term Incentive Cash Bonus	Super-annuation	Termination benefits	Long Service Leave	Shares	Options	Total		
	$	$	$		$	$	$	%	%	%
Executive Directors										
Bill Votsaris	395,364	200,000	–	–	–	–	57,484	652,848	30.64%	8.81%
Subtotal Executive Directors	**395,364**	**200,000**	–	–	**–**	**–**	**–**	**652,848**	**30.64%**	**8.81%**
Non-executive Directors										
Robert Clarke	100,000	–	–	–	–	–	–	100,000	–	–
Robert Bladier[i]	27,500	–	–	–	–	–	–	27,500	–	–
Victor Aghtan[ii]	30,000	–	–	–	–	–	–	30,000	–	–
Selwyn Shapiro	53,333	–	–	–	–	–	–	53,333	–	–
David Nott[iii]	5,192	–	–	–	–	–	–	5,192	–	–
Subtotal Non-executive Directors	**216,025**	–	**–**	**–**	**–**	–	**–**	**216,025**	–	–
Other Key Management Personnel										
Terence Cameron	149,191	–	13,427	–	–	–	–	162,618	–	–
Paul M Southwick[iv]	63,094	–	5,287	62,789	–	–	–	131,169	–	–
Richard Lord[v]	101,262	–	5,815	102,299	–	–	–	209,377	–	–
Michael Hodder	166,836	–	13,828	–	–	–	–	180,663	–	–
Bridee Clifton[vi]	93,920	–	8,453	4,793	–	–	–	107,166	–	–
Chris Kokkas	168,148	–	14,103	–	–	–	–	182,251	–	–
Harry Pouliassis	181,585	–	14,103	–	–	–	–	195,688	–	–
Stan Levine	166,895	–	9,874	–	–	–	–	176,768	–	–
Derreck Massuger	137,615	27,523	14,862	–	–	–	–	180,001	15.29%	–
John Wilks[vii]	108,004	50,000	9,720	–	–	–	–	167,724	29.81%	–
Thomas Weddin	181,385	–	14,889	–	–	–	–	196,273	–	–
John Demelis[viii]	12,227	–	1,112	–	–	–	–	13,339	–	–
Mac Walker	140,255	–	12,623	–	–	–	–	152,878	–	–
Subtotal other KMP	**1,670,415**	**77,523**	**138,096**	**169,881**	–	–	–	**2,055,915**	**3.77%**	–
Total	**2,281,804**	**277,523**	**138,096**	**169,881**	–	–	**57,484**	**2,924,788**	**9.49%**	**1.97%**

Share Based Payments represent the issue of options under the Equity Participation Plan or Employee Performance Option Plan during the reporting period. The vesting of options issued to Mr Bill Votsaris during the period are subject to performance criteria which has not yet been met, as such the options remain unvested at reporting date.

No options have been exercised by the Directors during the year.

Remuneration in the form of options includes negative amounts for options forfeited in the year and any additional amounts taken to expense for options issued in prior years which have not lapsed or been exercised or forfeited.

(i)	5 month	(iv)	3 ½ months	(vii)	9 months
(ii)	7 months	(v)	4 ½ months	(viii)	1 month
(iii)	1½ months	(vi)	9 ½ month		

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

(e) Remuneration of Key Management Personnel for the year ended 31 December 2009 (Consolidated) (continued)

Prior year comparative information for 2008 is as follows:

	Short-Term			Post Employment	Long Term Benefits	Share Based Payment			Proportion of remuneration that is performance based	% of Value of remuneration consists of share Based Payments
31 December 2008	Cash Salary & Fees	Short term Incentive Cash Bonus	Super-annuation	Termination benefits	Long Service Leave	Shares	Options	Total		
	$	$	$	$	$	$	$	%	%	%
Executive Directors										
Bill Votsaris	387,500	–	–	–	–	–	–	387,500	–	–
Joseph Calavassy(i)	55,949	–	5,035	103,455	–	–	–	164,439	–	–
Subtotal Executive Directors	**443,449**	**–**	**5,035**	**103,455**	**–**	**–**	**–**	**551,939**	**–**	**–**
Non-executive Directors										
Robert Clarke	103,152	–	–	–	–	–	–	103,152	–	–
Robert Bladier	52,500	–	–	–	–	–	–	52,500	–	–
Victor Aghtan(ii)	9,519	–	–	–	–	260,000	–	269,519	–	96.5%
Selwyn Shapiro (iii)	33,958	–	–	–	–	–	–	33,958	–	–
Neil Docherty (iv)	20,417	20,000	–	–	–	–	–	40,417	49.5%	–
Stephen Porges (v)	30,000	–	–	–	–	–	–	30,000	–	–
Mark Forsyth (vi)	5,689	–	–	–	–	–	–	5,689	–	–
Ted Edwards (vii)	18,750	–	–	–	–	–	–	18,750	–	–
Subtotal Non-executive Directors	**273,985**	**20,000**	**–**	**–**	**–**	**260,000**	**–**	**553,985**	**3.6%**	**46.9%**
Other Key Management Personnel										
Terence Cameron	149,763	–	13,169	–	–	–	3,808	166,740	2.3%	2.3%
Paul M Southwick(viii)	101,949	–	7,183	–	–	–	–	109,132	–	–
Richard Lord	249,515	–	13,173	–	21,505	–	3,808	288,001	1.3%	1.3%
Michael Hodder	166,913	20,000	15,971	–	–	–	–	202,884	9.9%	–
Bridee Clifton	117,851	–	10,363	–	–	–	3,808	132,022	2.9%	2.9%
Chris Kokkas	164,814	–	13,871	–	–	–	3,808	182,493	2.1%	2.1%
Harry Pouliassis	181,008	–	14,881	–	–	–	3,808	199,697	1.9%	1.9%
Stan Levine	207,500	–	–	–	–	–	–	207,500	–	–
Leonard Turner(ix)	19,102	–	1,719	88,529	–	–	–	109,350	–	–
Megan Hales(x)	41,361	–	3,722	83,753	–	–	(94,934)	33,902	–	–
Nathan Brumby (xi)	76,131	–	4,012	103,149	–	–	(4,771)	178,521	–	–
Subtotal other KMP	**1,475,907**	**20,000**	**98,064**	**275,431**	**21,505**	**–**	**(80,665)**	**1,810,242**	**2.0%**	**–**
Total	**2,193,341**	**40,000**	**103,099**	**378,886**	**21,505**	**260,000**	**(80,665)**	**2,916,166**	**2.0%**	**9.3%**

Share Based Payments represent the issue, and vesting of options under the EPOP scheme during the reporting period. As all options issued under the scheme were vested during the period, the performance criteria relating to the vesting entitlement for those options have been met.

No options have been exercised by the Directors during the year.

Remuneration in the form of options includes negative amounts for options forfeited in the year and any additional amounts taken to expense for options issued in prior years which have not lapsed or been exercised or forfeited.

(i)	1 month	(iv)	4 ½ months	(vii)	4 ½ months	(x)	2 months
(ii)	3 months	(v)	8 months	(viii)	5 months	(xi)	4 months
(iii)	7½ months	(vi)	1 month	(ix)	4 ½ months		

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

(f) Performance income as a proportion of total remuneration

Unless otherwise stated, performance based bonuses are set based on set monetary figures and not on proportions of salary. This has resulted in the proportions of remuneration related to performance varying between individuals. The Nomination and Remuneration Committee, and the Chief Executive Officer as appropriate, have set these bonuses to encourage achievement of specific goals.

(g) Analysis of Cash Bonuses included in Remuneration

Cash bonuses awarded to each director and KMP, where applicable, vest and where due, are paid in each financial year. The bonuses for 2009 are detailed below:

	Bonus Incentive Available	Vested in Period	Forfeited in Period(i)
Executive Director			
Bill Votsaris (a)	$200,000	100%	0%
Key Management Personnel			
Derreck Massuger (b)	$50,000	55%	45%
John Wilks (c)	$50,000	100%	0%
John Demelis (d)	$80,000	0%	0%

(i) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial reporting period.

The performance criteria included in the determination of the bonus to each Director, Executive Director and KMP is as follows:

(a) The bonus incentive for Mr Bill Votsaris was based on the performance of securing the sale of the Synergy business to ComputerCORP Limited, as agreed by the Nomination and Remuneration Committee (of which Mr Votsaris is not a member). The bonus incentive is payable upon receipt of progress payments from ComputerCORP Limited as follows:

$100,000 on 30 June 2009;
$50,000 on 31 July 2009; and
$50,000 on 31 January 2010.

The first two progress payments have been received from ComputerCORP Limited and therefore bonus' related to these receipts are due and payable to Mr Votsaris. The remaining $50,000 has been accrued and is expected to be paid upon the receipt of the final payment from ComputerCORP Limited.

As at the date of this report the bonus incentive remains unpaid.

(b) The bonus incentive for Mr Derreck Massuger was based on performance criteria as agreed with the Chief Executive Officer related to the achievement of certain milestones. A portion of the performance criteria was achieved and therefore 55% of the available bonus was paid to Mr Massuger.

(c) The bonus incentive for Mr John Wilks was based on criteria related to achievement of expense reduction. The achievement of this milestone has been assessed in March 2010 and it was deemed that 100% of the incentive will be paid. The full amount of $50,000 has been accrued as at 31 December 2009.

(d) The bonus incentive for Mr John Demelis was based on performance criteria as agreed with the Chief Executive Officer. Mr Demelis was only employed in November 2009 and the achievement of the milestones are yet to be assessed.

No other Directors, Executive Directors or KMP were subject to performance bonuses as a term of their employment or other service agreements.

(h) Analysis of Prospective Cash Bonus Payments for Future Years

As at the date of this report, other than those outlined above, no other Directors, Executive Directors or KMP have cash bonus incentives agreed for future periods.

(i) Analysis of Performance Based Options Incentives included as Remuneration for the Year Ended 31 December 2009

The Nomination and Remuneration committee approved a performance based options incentive for the Chief Executive Officer for the 2008 and 2009 years. The key points of this performance based options incentive for the 2009 year are:

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

(i) For the year ended 31 December 2009, a grant of options equal to two percent (2%) of the total issued share capital of the company, at that time, provided that the Company has achieved an annualised EBITDA of ten million dollars ($10,000,000); and

(ii) Should the company achieve an EBITDA greater than twelve million dollars ($12,000,000), a grant of an additional two percent (2%) of the issued capital of the company at that time.

The terms of the options incentive also provides for the following conditions in relation to these options:

(a) Options shall not vest until such time as the volume weighted average price ('VWAP') of Hyro shares as traded on the Australian Securities Exchange exceeds $0.10 for one month and that this must occur within two years of issue of any parcel of options. In the event that this VWAP exceeds $0.10 for three consecutive months, then all options on issue at that time shall vest;

(b) Once vested, each option may be exercised within 3 years of the vesting date at an exercise price of one cent ($0.01) per option;

(c) That Mr Votsaris will not accrue options entitling him to acquire equity in the company of more than 10% of the issued capital of the company;

(d) In the event that the incentives are not initially met the terms provide that the grant of options will not automatically lapse until an opportunity to satisfy the conditions in each case has been afforded to Mr Votsaris for a further period for three (3) months;

(e) Shares acquired by Mr Votsaris through the exercise of options will be subject to conditional escrow for a period of not less than 12 months from the of exercise, unless Mr Votsaris ceases to be an employee of the company, at which time this escrow period shall reduce to 6 months;

(f) Unvested options shall lapse on the date of termination of Mr Votsaris' employment; and

(g) Agreed concessions in the event of sale or merger or all or a majority of the business, should this occur within a given performance period.

As at the date of this report, a determination of Mr Votsaris' entitlement to any or all of these option incentives has not been formally reached. Any allocation of options under this incentive program will require shareholder approval and thus shareholders will be notified the outcome of this review in due course.

In relation to options for the 2008 year, the unconditional grant of options amounting to two percent (2%) of the total issued share capital at the time of issued (30 June 2009) was made 30 June 2009, amounting to 10,702,576 options.

This Equity Participation Plan was put to shareholders and approved at the company's Annual General Meeting held 29 May 2009.

(j) Options Issued as Part of Performance Based Options Incentives included as Remuneration for the Year Ended 31 December 2009

2009	No. options/ rights granted	No. options/ rights vested	Fair value per option/ right at grant date	Exercise price	Amount paid or payable	Expiry date	Date exercisable
Executive Director							
Bill Votsaris	10,702,576	–	$0.0093	$0.01	Nil	Unvested options expire upon cessation of employment	Once vested, options are exercisable within 3 years of the date of vesting
	10,702,576	–					

No options were exercised by any Director, Executive Director or KMP during the year.

(k) Analysis of Options Incentives included as remuneration for Past Years

The Nomination and Remuneration Committee approved a performance based options incentive for the Chief Executive Officer for the 2008 and 2009 years. A key point of this Performance Based Options Incentive is that residual conditions for the performance related options incentive for 2009 will continue to apply.

These performance options are subject to the same conditions as defined in Item (i) (a) – (g) above.

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

For the year ended 31 December 2008 the annualised hurdle of EBITDA of five million dollars ($5,000,000) was assessed formally by the board as at 31 March 2009. It was deemed that this hurdle has not been reached and therefore the entitlement to options for the 2008 year has lapsed.

(l) Options Issued as a Part of Remuneration for the Year Ended 31 December 2009

Options may be issued to KMP as part of their remuneration, under the Employee Performance Option Program ('EPOP'). These options are issued to encourage goal alignment between Executive Directors, KMP, other eligible employees and shareholders.

For the year ended 31 December 2009, no options were issued under the EPOP.

No options were exercised by any Director, Executive Director or KMP during the year.

(m) Value of options to key management personnel and executives

Details of the value of options granted, exercised and lapsed during the year to key management personnel and executives as part of their remuneration are summarised below:

Name	Value of options at grant date * $	Value of options exercised at exercise date **	Value of options lapsed at date of lapse ***
Executive Director			
Bill Votsaris [(a)]	99,973	Nil	Nil
Other Key Management Personnel			
Terence Cameron	Nil	Nil	Nil
Michael Hodder	Nil	Nil	Nil
Chris Kokkas	Nil	Nil	Nil
Harry Pouliassis	Nil	Nil	Nil
Stan Levine	Nil	Nil	Nil
Derreck Massuger	Nil	Nil	Nil
John Wilks	Nil	Nil	Nil
Thomas Weddin	Nil	Nil	Nil
John Demelis	Nil	Nil	Nil
Mac Walker	Nil	Nil	Nil

* The value of options granted during the period. The amount expensed during the year was $57,484 which is recognised as part of each key management persons' or executives' remuneration in (e) above. The remainder of the value of these options is being expensed over the vesting period on a straight line basis.

** The value of options exercised at exercise date has been determined as the intrinsic value of the options at exercise date, i.e. the excess of the market value at exercise date over the strike price of the option.

*** Options lapsed due to vesting conditions not being satisfied. The value of options at date of lapse is determined assuming that the vesting condition has been satisfied.

(a) Options issues as a part of the Equity Participation Plan contained in Mr Votsaris' Employment Contract.

(n) Shares Issued as a Part of Remuneration for the Year Ended 31 December 2009

During the year ended 31 December 2009 there were no shares in the company issued to Directors, Key Management Personnel or other employees as a part of remuneration.

(o) Employment Contracts

Mr Bill Votsaris was appointed to the position of Chief Executive Officer on 1 February 2008 and provides services to the Company under an Employment Agreement with the following key terms:

- Initial term of one year from 1st February 2008, then ongoing
- A salary of $400,000 per annum inclusive of superannuation.

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

- Statutory annual leave and long service leave entitlements.
- Termination of the agreement by either the Company or Mr Votsaris with a six months notice period.
- An entitlement to participate in an Equity Participation Plan based on the achievement of performance based conditions and as described in items (i) and (j) above.
- The agreement provides for payment in lieu of notice at the discretion of the company, but does not provide for any additional termination payments.

Key Management Personnel ('KMP') are subject to a common Employment Agreement, unless otherwise disclosed in this report. The key common terms of the Employment Agreement are:

- Term of the agreement is ongoing
- A notice period of 1 month is required from either the Company or the KMP
- Specific performance criteria to define the minimum acceptable level of performance for the role.
- Immediate termination without notice may occur in the event of serious misconduct or illegal actions on the part of the KMP
- Restraints on competition for specified time periods in specified geographic locations in respect of defined services and activities in the event of termination.
- The agreement provides for payment in lieu of notice at the discretion of the company, but does not provide for any additional termination payments.

Mr Terence Cameron, Mr Michael Hodder, Mr Chris Kokkas, Mr Mac Walker, Mr Thomas Weddin, Mr Harry Pouliassis and Mr Derreck Massuger are employed under the common Employment Agreement conditions outlined above. Variations to the common Employment Agreement exist for two KMP as follows:

Mr Stan Levine's Employment Agreement also contains provisions for a "Retention Incentive" in the form of options on shares in Hyro Limited. This Retention Incentive is yet to be assessed.

Mr John Demelis's Employment Agreement contains provisions in relation to continuity of employment after six and twelve months with the company.

(p) Options and Rights Holdings

Share options issued during the period to Directors and key management personnel by Hyro Limited.

31 December 2009	Options issued	Fair value at grant date	Expensed in the period	Remaining fair value	Remuneration consisting of options
Bill Votsaris [a]	10,702,576	$99,973	$57,484	$42,489	8.81%
	10,702,576	$99,973	$57,484	$42,489	

(a) Issue date 29 May 2009, vesting when VWAP exceeds $0.10 for one month, exercise price $0.01, unvested options expire on cessation of employment.

31 December 2008	Options issued	Fair value at grant date	Expensed in the period	Remaining fair value	Remuneration consisting of options
Terence Cameron [b]	107,000	$3,808	$3,808	–	2.3%
Bridee Clifton[b]	107,000	$3,808	$3,808	–	2.9%
Chris Kokkas[b]	107,000	$3,808	$3,808	–	2.1%
Richard Lord[b]	107,000	$3,808	$3,808	–	1.4%
Harry Pouliassis[b]	107,000	$3,808	$3,808	–	1.9%
	535,000	$19,040	$19,040	–	

(b) Issue date 28 February 2008, vesting date 31 December 2008, exercise price $0.10 expiry date 31 December 2013.

The Board does not have a policy in relation to limiting the exposure to risk for employees associated with options issued under the EPOP.

End of Audited Remuneration Report

Directors' Report (continued)

SHARE OPTIONS

Employee Share Option Plan - 'ESOP'

The Company has an existing Employee Share Option Plan ("the ESOP Plan") for the the date benefit of its employees. As at 31 December 2009 the Company has no employee share options on issue under this plan. All existing options at the beginning of the year have lapsed. No ESOP options were granted during or since the end of the financial year to any of the Directors or the key management personnel of the Company and Group as part of their remuneration.

The board have resolved to disband this ESOP Plan, effective 31 December 2009.

Unissued ordinary shares of Hyro Limited under the Hyro Employee Share Option Plan at of this report are as follows:

Date options granted	Expiry Date	Exercise Price $	Balance at start of the year Number	Issued during the year Number	Lapsed during the year Number	Exercised During the Year Number	Balance at end of the year (all exercisable) Number
25 February 2002	25 February 2009	0.50	500	–	500	–	–
19 December 2003	19 December 2009	0.50	100,000	–	100,000	–	–
19 December 2003	19 December 2009	0.16	150,000	–	150,000	–	–
Total			250,500	–	(250,500)	–	–

Employee Performance Option Plan - 'EPOP'

The Company has an existing Employee Performance Option Plan ("the EPOP Plan") for the benefit of its employees. As at 31 December 2009 the Company has 9,824,700 employee share options on issue under this Plan. The options have varying vesting dates and all options expire 5 to 7 years from the vesting date.

No EPOP options were granted during or since the end of the financial year to any of the Directors.

Unissued ordinary shares of Hyro Limited under the Hyro EPOP Plan as at 31 December 2009 are as follows:

Date options granted	Expiry Date	Exercise price $	Balance at start of the year Number	Issued during the year Number	Lapsed during the year Number	Exercised during the year Number	Balance at end of the year Number	Exercisable at end of the year
13 September 2005	30 Jun 2012	0.010	300,000	–	–	(50,000)	250,000	250,000
20 December 2005	31 Dec 2012	0.060	974,100	–	–	–	974,100	974,100
24 August 2006	1 Sep 2011	0.086	4,000,000	–	–	–	4,000,000	4,000,000
20 December 2006	31 Dec 2012	0.060	94,100	–	–	–	94,100	94,100
22 December 2006	1 Dec 2011	0.086	140,000	–	–	–	140,000	140,000
22 December 2006	1 Mar 2012	0.060	15,000	–	–	–	15,000	15,000
22 December 2006	1 Jun 2012	0.060	990,000	–	–	–	990,000	990,000
22 December 2006	1 Sep 2012	0.086	195,000	–	–	–	195,000	195,000
22 December 2006	1 Dec 2012	0.086	60,000	–	–	–	60,000	60,000
22 December 2006	31 Dec 2012	0.060	82,600	–	–	–	82,600	82,600
24 January 2007	1 Jan 2013	0.086	50,000	–	–	–	50,000	50,000
17 May 2007	31 Dec 2012	0.250	816,000	–	–	–	816,000	816,000
17 May 2007	14 May 2013	0.010	100,000	–	–	–	100,000	100,000
17 May 2007	14 May 2013	0.060	130,800	–	–	–	130,800	130,800
17 May 2007	14 May 2013	0.086	225,000	–	–	–	225,000	225,000
01 April 2008	31 Dec 2013	0.086	175,000	–	–	–	175,000	175,000
28 February 2008	31 Dec 2013	0.100	1,575,800	–	(48,700)	–	1,527,100	1,527,100
Total			9,923,400	–	(48,700)	(50,000)	9,824,700	9,824,700

No option holder has any right under the EPOP or ESOP options to participate in any other share issue of the company or any other entity.

There have been no further issues of EPOP Options since the end of the financial year.

Directors' Report (continued)

SHARE OPTIONS (continued)

Shares issued on the exercise of options granted under Hyro EPOP

The following ordinary shares of Hyro Limited were issued during the year ended 31 December 2009 on the exercise of options granted under the Hyro EPOP. No further shares have been issued as a result of the exercise of options since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares $	Number of shares issued
13 September 2005	0.01	50,000
Total		50,000

Share Options under EPP

The Company has an Equity Participation Plan in place for the benefit of the Chief Executive Officer. As at 31 December 2009 the Company has 10,702,576 share options on issue under this Plan.

Unissued ordinary shares of Hyro Limited under the Hyro EPOP Plan as at 31 December 2009 are as follows:

Date options granted	Expiry Date	Exercise price $	Balance at start of the year Number	Issued during the year Number	Lapsed during the year Number	Exercised during the year Number	Balance at end of the year Number	Exercisable at end of the year
29 May 2009	Upon cessation of employment	0.01	–	10,702,576	–	–	10,702,576	–
Total			–	10,702,576	–	–	10,702,576	–

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Hyro paid a premium of $78,172 to insure the Directors and officers of the Company and its subsidiaries. The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity. Directors and executive officers emoluments set out above exclude this premium, as it is not allocated on an individual basis.

DIRECTORS MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year ended 31 December 2009, and the number of meetings attended by each director, were as follows:

	Directors' Meetings		Audit Committee Meetings		Nomination and Remuneration Committee Meetings	
	(a)	(b)	(a)	(b)	(a)	(b)
R Clarke	13	13	1	1	2	2
R Bladier	5	5	–	–	2	2
V Aghtan	8	7	1	1	–	–
B Votsaris	13	13	1	1	–	–
S Shapiro	13	13	1	1	2	2
D Nott	1	1	–	–	–	–
P Southwick (Secretary)	3	2	–	–	–	–
J Wilks (Secretary)	10	10	1	1	2	2

(a) Number of meetings held while the Director was a member of the Board or relevant committee.

(b) Number of meetings attended during the period the Director was a member of the Board and/or committee.

Directors' Report (continued)

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

No proceedings have been brought or intervened in or on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

NON AUDIT SERVICES

The entity's auditor, BDO Audit (NSW-VIC) Pty Ltd, did not provide any non-audit services in the reporting period.

ROUNDING

Except for the Remuneration Report (Audited) and certain other items, the amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE

The Directors received an independence declaration from the auditor, BDO Audit (NSW-VIC) Pty Ltd as required under Section 307C of the Corporations Act 2001. A copy has been included on page 27 of this report.

Signed in accordance with a resolution of the Directors.

Robert Clarke
Chairman

Sydney, 31 March 2010

Bill Votsaris
Director

Melbourne, 31 March 2010

Tel: +61 2 9286 5555
Fax: +61 2 9286 5599
www.bdo.com.au

Level 19, 2 Market St
Sydney NSW 2000
GPO Box 2551 Sydney NSW 2001
Australia

DECLARATION OF INDEPENDENCE BY NEVILLE SINCLAIR TO THE DIRECTORS OF HYRO LIMITED

As lead auditor of Hyro Limited for the year ended 31st December 2009, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Hyro Limited and the entities it controlled during the period.

N E Sinclair.

N E Sinclair
Director

BDO Audit (NSW-VIC) Pty Limited

Sydney, 31 March 2010

Corporate Governance Statement

The Board of Hyro are committed to achieving and demonstrating a robust corporate governance framework. In determining what is best practice, the Company has examined the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Governance Principles).

The Group's corporate governance practices are continually being reviewed and refined as the Company expands its operations.

This Corporate Governance Statement outlines the Company's main corporate governance practices and policies in place throughout the financial year in order of the ASX Governance Principles. Any of the ASX Recommendations which have not been followed are identified and the reason why the Company has not adopted them.

ASX GOVERNANCE PRINCIPLES

Principle 1

Lay Solid Foundations for Management and Oversight by the Board

The Board is responsible for guiding and monitoring the overall business performance and strategic direction of the company on behalf of the shareholders by whom it is elected and to whom it is accountable.

The Board has adopted a charter which details the roles and responsibilities that are specifically reserved to it for decision. The Charter is published on Hyro's website www.hyro.com.

The Board's responsibilities encompass the following:

1. Set the Company's strategic direction and monitor management's implementation of that strategy;
2. Monitor financial outcomes and the integrity of internal and external reporting; in particular approve annual budgets and longer-term strategic and business plans;
3. Effective and timely reporting to shareholders including annual and half yearly reports, the financial content of quarterly reports and any other information for disclosure to the market that contains financial projections or statements as to future financial performance;
4. Approve and monitor the progress of major capital expenditure projects, capital management and acquisitions and divestments;
5. Approve borrowings other than in the ordinary course of business and the granting of security over or interests in the undertaking or assets of the Company;
6. Ensure that effective audit, risk management and compliance systems are in place to protect the Company's assets and to minimise the possibility of the Company operating beyond legal requirements or beyond acceptable risk parameters;
7. Set specific limits of authority for management to commit to new expenditure, enter contracts or acquire businesses without prior Board approval;
8. Approve policies of a Company-wide or general nature;
9. Monitor compliance with regulatory requirements (including continuous disclosure) and ethical standards;
10. Appoint and where appropriate remove the Chief Executive Officer, Company Secretary and, in agreement with the Chief Executive Officer, those senior executives who report to the Chief Executive Officer;
11. Approve conditions of service and performance monitoring procedures to apply to the Chief Executive Officer and senior management; and
12. Review, on a regular basis, senior management succession planning and development.

There is a clear distinction between the responsibilities of the Board and the senior executive team. The Chairman is responsible for leading the Board in those duties detailed above, while the CEO is responsible for the efficient and effective operation of Hyro on a day-to-day basis.

The CEO oversees the implementation of strategies approved by the Board and is accountable to the Board for all authority delegated to the senior executive team.

The Board generally meets monthly, with special meetings called if required between scheduled meetings. Agendas are established to ensure proper coverage of strategic, financial and major risk areas throughout the year.

The CEO is also responsible for bringing material matters to the Board's attention. To maintain an understanding and to monitor the results of the operations, members of the senior executive team provide briefs to the Board on a regular basis.

Principle 2

Structure the Board to Add Value

The Board considers that the composition of the Board should be such that there is collectively, an appropriate mix of skills, personal attributes and experience amongst the members.

The skills, experience and expertise of each director in office as at 31 December 2009 is detailed in the Directors' Report.

As at 31 December 2009, the Board comprised three non-executive Directors including the Chairman, and one executive director, being the CEO.

The Board is responsible for establishing criteria for board membership, reviewing board membership and identifying and nominating Directors. The Directors generally review board membership annually to ensure the Company's Board have an appropriate mix of qualifications, skills and experience. In the last six months of the financial year, the Board has been considering a number of potential candidates to further enhance the collective skill set of the Board.

The policy for appointment of Directors and the selection process are outlined in the Nomination and Remuneration Committee Charter, which is available on the Company's website www.hyro.com.

Corporate Governance Statement (continued)

ASX GOVERNANCE PRINCIPLES (continued)

New non-executive Directors are provided with an induction program.

The Board is committed to develop an ongoing dialogue with its key stakeholders over any matters of concern with Board structure and/or independence.

Principle 2 (continued)

The Company's Constitution requires one third of the Directors to retire from office at the AGM each year. Retiring Directors are eligible for re-election. The CEO is excluded from this requirement.

When the Board fills a vacancy during a year, the new director must stand for election at the next AGM.

Independent Directors have the right to seek independent professional advice at the Company's expense in the furtherance of their duties as Directors. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the Company. No individual Directors exercised this right during the year.

Directors' Independence

The Board has assessed the independence of the non-executive Directors in light of their interests and relationships.

The Company regards Messrs Aghtan and Shapiro as independent non-executive Directors who are not substantial shareholders. They are not, nor have they within the last three years been material suppliers, customers or advisors to the company or a company executive, nor do they hold Directorships of companies operating in a similar industry to the Company or have any familial ties with the Company.

The Chairman of the Company, Mr Robert Clarke is also considered an independent member of the Board.

Non-executive Directors are deemed to be independent of management and any business or other relationship with Hyro that could materially interfere with the exercise of objective, unfettered or independent judgement by the director or the Directors' ability to act in the best interests of the Company.

In addition to independence, the Board assesses the time commitments of the Chairman and all other non-executive Directors to ensure that adequate time is available to discharge Board duties. Currently, all Directors are considered to have sufficient time available to discharge responsibilities to Hyro.

Board Committees

The Board has established two permanent committees to assist in the execution of its responsibilities:

- Audit Committee; and
- Nomination and Remuneration Committee.

Each of the committee's has a charter under which authority is delegated to them from the Board. The Charters can be viewed on the Company website.

Committee meeting agendas, papers and minutes are made available to all members of the Board. The number of committee meetings held during the year and the attendance at these meetings by members, are set out on page 25 in the Directors' Report. All members of the committees are non-executive Directors.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee currently comprises Mr Selwyn Shapiro and Mr Robert Clarke.

The Committee is responsible for recommendations to the Board in determining Remuneration Policy and the remuneration of executive Directors and the senior executive team. This includes long-term performance requirements and incentives.

The Committee's role also includes assisting the Board in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of a director. The Committee's specific responsibilities as outlined in its Charter are:

Nomination:

- Determining the appropriate size and composition of the Board;
- Setting a formal and transparent procedure for selecting new Directors for appointment to the Board;
- Developing criteria for selection of candidates for the Board in the context of the Boards existing composition and structure;
- Making recommendations to the Board on the removal and appointment of Directors;
- Developing a plan for identifying, assessing and enhancing director competencies;
- Developing a succession plan for the Board and regularly reviewing the plan;
- Reviewing the time required from a non-executive director and whether Directors of the Board are meeting this requirement;
- Evaluating the performance of the Board and key executives; and
- Ensuring that there is an appropriate induction program in place for new Directors and members of senior management and reviewing its effectiveness.

Corporate Governance Statement (continued)

ASX GOVERNANCE PRINCIPLES (continued)

Remuneration:

- Determining remuneration policies and remuneration of Directors;
- Determining remuneration and incentive policies packages of key executives having regard to prevailing market rates for similar roles;
- Determining Hyro's recruitment, retention and termination policies and procedures for senior management;
- Determining and reviewing incentive schemes;
- Determining and reviewing superannuation arrangements;
- Professional indemnity and liability insurance for Directors and senior management; and
- Reviewing succession planning for senior management.

Given the size of the Board during the 2009 financial year, the Nomination and Remuneration responsibilities usually delegated to this Committee have been fulfilled by the Board of Directors. The exception to this has been the assessment of the performance of the CEO against stated KPI's.

The Board is also committed to reviewing the performance of non-executive directors and the Board as a whole. The last independent Board review was conducted in November 2007. Given the current size of the Board, a review in 2008 and 2009 has not been deemed necessary. This position will be re-assessed during the 2010 calendar year.

Principle 3

Promote Ethical and Responsible Decision Making

The Directors are committed to the principles underpinning best practice in corporate governance, applied in a manner which is best suited to the Company and its controlled entities 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, continuous disclosure and financial and ethical behaviour.

Trading Policy

The Company's policy regarding Directors and employees trading in its securities is approved by the Board and is provided to all Directors and employees.

The policy restricts Directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' price.

Under the Trading Policy, Directors and the Senior Executive Team are limited to dealing in securities of Hyro Limited except during designated periods and at any time at which the individual is in possession of price-sensitive information. The policy also requires Directors and employees to advise the Board, CFO or Company Secretary if they intend to trade securities of the Company.

A copy of the Trading Policy can be found on the company website.

Conflict of Interest

In the event that a potential conflict of interest may arise, involved Directors must withdraw from all deliberations concerning the matter. They are not permitted to exercise any influence over the other Board members or receive relevant Board papers.

Code of Conduct

The Company is in the process of documenting a Code of Conduct which reflects the high standard of legal, moral and ethical conduct required by the Board and all employees.

Principle 4

Safeguard Integrity in Financial Reporting

The Directors are committed to the preparation of financial statements which present a balanced and clear assessment of the Company's financial position and prospects.

Hyro has an audit committee comprised entirely of non-executive Directors. As at 31 December 2009, the members of the audit committee were Mr Selwyn Shapiro and Mr Robert Clarke. Ordinarily, the committee provides a link between the external auditors and the board, and monitors compliance with statutory responsibilities. For the financial year ended 31 December 2009, an independent contractor has been engaged to facilitate this link between the Board and the external auditor. This is due to the size of the Board not necessitating a separate sub-committee to fulfil this role. The Board anticipates that with an increased number of directors, and therefore appointments to this sub-committee, it will again be performing its full intended responsibilities.

Specifically, the audit committee's charter identifies the following duties:

- Review of all financial statements which require approval by the Board, prior to the Board approval;
- Recommending to the Board the appointment of the external auditor;
- Considering the appropriateness of the Company's accounting policies and approving any changes which may be necessary;
- Reviewing audit plans of the external auditor;
- Reviewing results of the external audits;
- Assessing managements programs and policies which deal with the adequacy and effectiveness of internal controls over the Company's business processes;
- Approve changes to the Company's formal accounting policies;

Corporate Governance Statement (continued)

ASX GOVERNANCE PRINCIPLES (continued)

- Review jointly with management, the external auditors and if necessary, legal counsel, any litigation, claim or other contingency, including tax assessments, which could have a material effect on the financial position or operating results of the Company;
- Review and assess compliance monitoring programs in place within the Company;
- Assess the adequacy of the Company's insurance program and its risk management strategies; and
- Assess the overall performance of the Committee by:
  - obtaining feedback from the Board, CEO or Managing Director, and external auditor;
  - completing a self-assessment process at least every two years; and
  - the Chairman assessing the contribution and performance of individual Committee members.

The Charter can be viewed on the Company's website.

Audit committee meetings, in addition to the members of the committee, are attended by management and external auditors as required.

Hyro is committed to ensuring the independence of the external auditors. To ensure this, the committee for the Board approves all non-audit services provided by the external audit firm.

The Chief Executive Officer and the Chief Financial Officer provide the Board with written confirmation that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

Principle 5

Make Timely and Balanced Disclosure

Hyro is committed to ensuring that shareholders and the investment community generally are fully informed of events that impact the Company.

To reinforce this intention, the Company is establishing a Continuous Disclosure Policy which ensures that the Company complies with its continuous disclosure obligations in accordance with the Corporations Act 2001 and the ASX Listing Rules. It is anticipated that this will be approved by the Board and available for viewing on the Company website by the end of the first quarter 2010.

Principle 6

Respect the rights of Shareholders

The Board is committed to ensuring that shareholders receive high quality, relevant and useful information in a timely manner.

The principal communication channels are through the provision of the annual and half yearly reports, periodic analyst briefings, Company announcements and the Annual General Meeting.

The Company notes the ASX Recommendation that the Company has a written policy in respect of external communications. However, the Board and Management are of the opinion that the size of the organisation and the internal lines of communication are such that a formal written policy is not warranted at this time.

The Board's philosophy is to encourage full participation of shareholders at the Annual General Meeting. The external auditor is in attendance at this meeting to answer any shareholder questions about the conduct of the audit and the preparation and content of the Audit Report.

Disclosure of all announcements made to the ASX, the Company Annual Reports, key policies and Charters of the Board and its committees are all available for viewing on the Company website.

Principle 7

Recognise and Manage Risk

The Board recognises that there are many risks associated with the operation of business in this market. Management is responsible to the Board for identifying, managing, reporting upon and implementing measures to address risk and compliance.

The Board oversees and reviews the effectiveness of risk management and compliance management in the organisation and is assisted in this process by the Audit Committee. The Board monitors operational and financial aspects of the business against budgets and other key performance indicators, and through the Audit Committee considers the advice of external auditors.

The Chief Executive Officer and the Chief Financial Officer provide written assurance to the Board as to the integrity of the financial statements and that they are founded on a sound system of risk management and internal controls which are operating effectively and efficiently.

The Company recognises the ASX Recommendation that the Company have a written Risk Management Policy, however the Board and management are of the opinion that the size of the organisation and the internal lines of communication are such that a formal written policy is not warranted at this time.

Principle 8

Remunerate Fairly and Responsibly

The Company's remuneration policy and practices are designed to attract, motivate and retain high quality people, and to ensure that remuneration of all staff properly reflect each person's accountabilities, duties and level of performance.

All remuneration packages are reviewed annually, taking into account individual and company performance, market movements and expert advice. Details of remuneration paid to Directors and Key Management Personnel are set out in full in the Directors Report.

Corporate Governance Statement (continued)

ASX GOVERNANCE PRINCIPLES (continued)

The Company has established a Nomination and Remuneration Committee, which has the responsibility of determining appropriate remuneration policies for executive staff and Directors.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee currently comprises Mr Selwyn Shapiro and Mr Robert Clarke.

The Committee is responsible for recommendations to the Board in determining Remuneration Policy and the remuneration of executive Directors and the senior executive team. This includes long-term performance requirements and incentives.

The Committee's role also includes assisting the Board in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of a director. The Committee's specific responsibilities as outlined in its Charter are:

Remuneration:

- Determining remuneration policies and remuneration of Directors;
- Determining remuneration and incentive policies packages of key executives having regard to prevailing market rates for similar roles;
- Determining Hyro's recruitment, retention and termination policies and procedures for senior management;
- Determining and reviewing incentive schemes;
- Determining and reviewing superannuation arrangements;
- Professional indemnity and liability insurance for Directors and senior management; and
- Reviewing succession planning for senior management.

Given the size of the Board during the 2009 financial year, the Nomination and Remuneration responsibilities usually delegated to this Committee have been fulfilled by the Board of Directors. The exception to this has been the assessment of the performance of the CEO against stated KPI's.

The Board is also committed to reviewing the performance of non-executive directors and the Board as a whole. The last independent Board review was conducted in November 2007. Given the current size of the Board, a review in 2008 and 2009 has not been deemed necessary. This position will be re-assessed during the 2010 calendar year.

Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008* $'000	Parent 2009 $'000	Parent 2008 $'000
Revenue from continuing operations	6(a)	39,588	54,823	–	–
Other income	6(b)	20,406	67	21,490	117
		59,994	54,890	21,490	117
Purchases for resale	6(c)	(9,895)	(15,676)	–	–
Employee benefits expense	6(d)	(23,894)	(34,988)	(922)	(610)
Depreciation expense	6(e)	(805)	(947)	–	–
Amortisation of intangible assets	6(e)	(1,778)	(3,602)	–	–
Impairment of goodwill and intangible assets	6(f)	(5,561)	(23,423)	–	–
Write off of software and property, plant and equipment		(867)	(2,608)	–	–
Loss on disposal of business assets	16(e)	(919)	–		
Other expenses	6(g)	(6,865)	(13,229)	–	(354)
Write down of investment to recoverable amount		–	–	–	(39,902)
(Write down) / write back of inter-company receivables		–	–	–	676
Finance costs	6(h)	(1,827)	(4,965)	(1,617)	(2,603)
Profit/ (Loss) before income tax		7,583	(44,548)	18,951	(42,676)
Income tax benefit	7	4,455	2,583	337	190
Profit / (Loss) from continuing operations		12,038	(41,965)	19,288	(42,486)
Profit /(Loss) from discontinued operations	29	3,314	(3,141)	–	–
Profit / (Loss) for the year		15,352	(45,106)	19,288	(42,486)
Profit / (Loss) attributable to minority interest		-	–	–	–
Other comprehensive income					
Foreign exchange reserve		(330)	597	–	–
Total comprehensive income for the year attributable to members of the parent		15,022	(44,509)	19,288	(42,486)

	Notes	Consolidated 2009	Consolidated 2008*
Earnings per share for overall operations			
Earnings per share (cents per share)	8		
• basic for earnings		2.65	(8.46)
• diluted for earnings for the year		2.65	(8.46)
Earnings per share from continuing operations			
Earnings per share (cents per share)			
• basic for earnings for the year		2.08	(7.87)
• diluted for earnings for the year		2.08	(7.87)
Earnings per share from discontinued operations			
Earnings per share (cents per share)			
• basic for earnings		0.57	(0.59)
• diluted for earnings for the year		0.57	(0.59)

* Restated for operations discontinued in 2009.

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

For the Year Ended 31 December 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
ASSETS					
Current Assets					
Cash and cash equivalents	9	2,873	2,480	2,501	1,622
Trade and other receivables	10	4,842	6,355	458	–
Inventories	11	-	7	-	–
Other	12	638	651	-	–
Total Current Assets		8,353	9,493	2,959	1,622
Non-current Assets					
Available-for-sale investments	14	40	40	40	40
Trade and other receivables	10	1,793	-	-	-
Property, plant and equipment	15	2,511	4,246	-	–
Intangible assets and goodwill	16	217	14,157	-	–
Total Non-current Assets		4,561	18,443	40	40
TOTAL ASSETS		12,914	27,936	2,999	1,662
LIABILITIES					
Current Liabilities					
Trade and other payables	17	5,188	11,661	249	–
Income tax payable		-	213	-	–
Provisions	18	958	837	224	353
Interest-bearing loans and borrowings	19	10,108	30,433	-	19,825
Total Current Liabilities		16,254	43,144	473	20,178
Non-Current Liabilities					
Provisions	18	1,085	1,347	-	–
Deferred tax liabilities	7	-	4,455	-	337
Interest-bearing loans and borrowings	19	841	1,369	-	–
Total Non-current Liabilities		1,926	7,171	-	337
TOTAL LIABILITIES		18,180	50,315	473	20,515
NET ASSETS / (LIABILITIES)		(5,266)	(22,379)	2,526	(18,853)
EQUITY					
Equity attributable to equity holders of the parent Contributed equity	20	107,634	105,600	107,634	105,600
Accumulated losses		(114,537)	(129,889)	(106,478)	(125,766)
Reserves	21	1,637	1,910	1,370	1,313
Parent Interests / (deficiencies)		(5,266)	(22,379)	2,526	(18,853)
Minority interests	22	–	–	–	–
TOTAL EQUITY / (DEFICIENCY) OF SHAREHOLDERS' FUNDS		(5,266)	(22,379)	2,526	(18,853)

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to equity holders of the parent				Minority interest	Total equity
	Contributed equity $'000	Accumulated losses $'000	Reserves (note 21) $'000	Total $'000	$'000	$'000
CONSOLIDATED						
At 1 January 2008	105,329	(84,783)	1,439	21,985	–	21,985
Loss for the year	–	(45,106)	–	(45,106)	–	(45,106)
Foreign exchange reserve			597	597	–	597
Total comprehensive income for the year	–	(45,106)	597	(44,509)	–	(44,509)
Equity transactions:					–	
Issue of shares	271	–	–	271	–	271
Cost of share-based payments	–	–	(126)	(126)	–	(126)
Minority interest during the year	–	–	–	–	–	–
At 31 December 2008	105,600	(129,889)	1,910	(22,379)	–	(22,379)
Profit for the year	–	15,352	–	15,352	–	15,352
Foreign exchange reserve	–	–	(330)	(330)	–	(330)
Total comprehensive income for the year	–	15,352	(330)	15,022	–	15,022
Equity transactions:						
Issue of share capital	2,034	–	–	2,034	–	2,034
Cost of share-based payments	–	–	57	57	–	57
Minority acquired during the year	–	–	–	–	–	–
At 31 December 2009	107,634	(114,537)	1,637	(5,266)	–	(5,266)

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

Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to equity holders of the parent			
	Contributed equity $'000	Accumulated losses $'000	Reserves (note 21) $'000	Total $'000
PARENT				
At 1 January 2008	105,329	(83,280)	1,439	23,488
Loss for the year	–	(42,486)	–	(42,486)
Total income and expense for the year	–	(42,486)	–	(42,486)
Equity transactions:				
Issue of shares	271	–	–	271
Cost of share-based payments	–	–	(126)	(126)
At 31 December 2008	105,600	(125,766)	1,313	(18,853)
Profit for the year	–	19,288	–	19,288
Total income and expense for the year	–	19,288	–	19,288
Equity transactions:				
Issue of share capital	2,034	–	–	2,034
Cost of share-based payments	–	–	57	57
At 31 December 2009	107,634	(106,478)	1,370	2,526

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

Statement of Cash Flows

For the year ended 31 December 2009

	Notes	Consolidated		Parent	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash flows from operating activities					
Receipts from customers		45,554	77,254	1,581	–
Payments to suppliers and employees		(44,980)	(75,237)	–	(243)
Interest received		67	223	55	117
Borrowing costs		(207)	(580)	–	–
Income taxes paid		–	(80)	–	–
Foreign exchange movement		–	492	–	–
Net cash flows from / (used in) operating activities	23	434	2,072	1,636	(126)
Cash flows from investing activities					
Purchase of property, plant and equipment	15	(298)	(1,911)	–	–
Purchase of software	16	(20)	(114)	–	–
Proceeds from disposal of business unit		1,625	–	–	
Net cash flows from / (used in) investing activities		1,307	(2,025)	–	–
Cash flows from financing activities					
Proceeds from issues of shares		–	11	–	11
Payment of finance lease liabilities		(486)	(416)	–	–
Repayments of convertible notes		(757)	(443)	(757)	–
Net cash flows from / (used in) financing activities		(1,243)	(848)	(879)	11
Net increase / (decrease) in cash and cash equivalents		498	(801)	879	(115)
Cash and cash equivalents at beginning of year		2,480	3,176	1,622	1,737
Effect of exchange rates on cash held in foreign currencies at the beginning of the year		(105)	105	–	–
Cash and cash equivalents at end of year	9	2,873	2,480	2,501	1,622

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

1. CORPORATE INFORMATION

The financial report of Hyro Limited (the Company) for the year ended 31 December 2009 was authorised for issue in accordance with a resolution of the Directors on 31 March 2010 and covers Hyro Limited as an individual entity as well as the group consisting of Hyro Limited and its subsidiaries (the Group) as required by the Corporations Act 2001.

Hyro Limited (the parent) is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange (ASX Code: HYO).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

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

(b) Going Concern

The financial report shows that the economic entity has

- achieved a significant improvement in Profit for the year up from a loss of $45.1M in 2008 to a profit of $15.3M.
- reduced Net Liabilities from $22.4M in 2008 to $5.3M.
- reduced Interest Bearing Loans and Borrowings from $31.8M in 2008 to $10.9M in 2009.
- reached a payment plan agreement with the Group's major creditor, the Australian Taxation Office to spread the repayment of overdue liabilities over the period to January 2012. The Australian Taxation Office has confirmed this agreement as of February 2010.

The Directors have reviewed

- the performance of the company in 2009
- the markedly stronger 2009 balance sheet position
- the performance of the company in the period since the balance date
- the business plan, budget and projected cash flows for the coming year
- current contracted revenue orders
- ongoing levels of enquiry for new and incremental business and
- alternative working capital options should they be required in the context of short term financing in the normal course of business.

In this context, the Directors consider that the Group remains a going concern and that the accounts should continue to be prepared on that basis.

(c) Statement of compliance

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2009. The Directors have not adopted any of these new or amended standards or interpretations. The Directors have not yet fully assessed the impact of these new or amended standards (to the extent relevant to the Group) and interpretations. Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements comply with International Financial Reporting Standards (IFRS).

New accounting standards

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial years ended 31 December 2009 (or for late financial reports of earlier periods). They have not been adopted in preparing the financial report for the year ended 31 December 2009 (or for late financial reports of earlier periods) and are expected to impact the entity in the period of initial application. In all cases the entity intends to apply these standards from application date as indicated in the table below.

STANDARDS LIKELY TO HAVE A FINANCIAL IMPACT

AASB 3 - 'Business Combinations'

AASB 3 is applicable to business combinations where the acquisition date is on or after the beginning of the first reporting period that commences 1 July 2009 or later.

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. Due to the nature of some of the changes in the revised standard, business combinations that the entity undertakes after this date may in future impact negatively on the results of the entity. For example, acquisition costs will have to be expensed instead of being recognised as part of goodwill.

Specific changes in respect of step acquisitions and sell downs may introduce situations whereby adopting the revised standard may improve profitability.

Also, deferred tax assets that do not satisfy recognition criteria when a business combination is initially accounted for, but do subsequently qualify for recognition post acquisition date, will be recognised as a credit to the profit or loss and there will be no consequential write-down of goodwill for a similar amount, provided that the deferred tax assets are recognised outside the initial measurement period of 12 months from acquisition date.

As there is no requirement to retrospectively restate comparative amounts for business combinations undertaken before this date, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 127 - 'Consolidated and Separate Financial Statements'

AASB 127 is applicable to periods commencing on or after 1 July 2009. The revised standard clarifies that changes in ownership interest which result in control being retained are accounted for within equity as transactions with owners. Losses will be attributed to the non-controlling interest even if this results in a debit balance for the non-controlling interest. Investments retained where there has been a loss of control will be recognised at fair value at date of sale.

As there is no requirement to retrospectively restate comparative amounts for business combinations undertaken before this date, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.

AASB 2008-6 – 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5]'

AASB 2008-6 is applicable to periods commencing on or after 1 July 2009. The amendments clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. There will be no impact as these requirements are only required to be applied prospectively to situations where there is a plan involving loss of control in annual periods commencing on or after 1 January 2009.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Hyro Limited and its subsidiaries (the Group) as at 31 December 2009.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared using consistent accounting policies as the parent company.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and unrealised profit and losses resulting from intra-group transactions have been eliminated in full.

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

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority interests not held by the Group are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

(e) Business combinations

The purchase method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill, refer to note 16. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

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

(f) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Hyro Limited and its Australian subsidiaries is Australian Dollars ($). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(ii) Transactions & balances

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

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All exchange differences in the financial report are taken to the profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

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

(iii) Translation of Group Companies functional currency to presentation currency

The results of the subsidiaries in Singapore and Thailand are translated into Australian Dollars as at the date of each transaction. At reporting date, income and expenses are translated at the weighted average exchange rates for the year. Assets and liabilities are translated at exchange rates prevailing at balance date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in overseas subsidiaries and of the borrowings designated as hedges of the net investment are taken to the foreign currency translation reserve. If the subsidiaries were sold, the proportionate share of exchange differences would be transferred out of equity and recognised profit or loss.

(g) Cash and cash equivalents

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

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

(h) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

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

Objective evidence of impairment includes financial difficulties of the debtor, default payments or debts more than 90 days overdue. On confirmation that the trade receivable will not be collectable an estimate loss of the gross carrying value of the asset is written off against the associated provision.

(i) Inventories

Inventories including work in progress and finished goods are valued at the lower of cost and net realisable value.

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

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.

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

(j) Investments and other financial assets

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

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

Available-for-sale financial assets comprise investments in listed and unlisted entities and any non-derivatives that are not classified as any other category of financial assets, and are classified as non-current assets (unless management intends to dispose of the investment within 12 months of reporting date). After initial recognition, these investments are measured at fair value with gains or losses recognised as a separate component of equity (available-for-sale investments revaluation reserve). Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment) the full amount including any amount previously charged to equity, is recognised in the profit or loss. Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available for sale reserve. On sale the amount held in available for sale reserves associated with that asset is removed from equity and recognised in the profit or loss. Interest on corporate bonds classified as available for sale is calculated using the effective interest rate method and is recognised in finance income in the profit or loss.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and De-recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

(i) Available-for-sale securities

Available-for-sale investments comprise investment in an unlisted entity, and are classified as non-current assets. After initial recognition, these investment are measured at fair value with gains or losses being recognised as a separate component of equity (Investment revaluation reserves), until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

Investment in subsidiaries are accounted for in the consolidated financial statements as described in note 2 (a) and on the parent entity financial statements at cost in accordance with the cost alternative permitted in separate financial statements under AASB 127 *Consolidated and Separate Financial Statements*.

(ii) Loans and receivables

Loans and receivables including loans due from related parties repayable within 365 days, are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

(k) Property, plant and equipment

Building and all other plant and equipment are stated at historical cost, including costs directly attributable to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by management, less accumulated depreciation and any accumulated impairment losses.

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

- Buildings – over 40 years
- Plant and equipment – over 8 years
- Leasehold improvements – over 8 years
- Computer equipment – over 4 years

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

Disposal

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

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

(l) Non-current assets classified as held for sale

Non-current assets classified as held for sale are those assets whose carrying amounts will be recovered principally through a sale transaction rather than through continuing use. These assets are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated or amortised. Interest expenses continues to be recognised on liabilities of a disposal group classified as held for sale.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for subsequent increases in fair value less costs to sell of an asset but not exceeding any cumulative impairment losses previously recognised.

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

(m) Leases

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

(i) Group as a lessee

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

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

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(n) Impairment of non-financial assets other than goodwill

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. 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 that 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 an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(o) Goodwill

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 8 *Operating Segments*.

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

Impairment losses recognised for goodwill are not subsequently reversed.

(p) Intangible assets

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

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

Software development

Development expenditure incurred on an individual project is capitalised if the product or service is technically feasible, adequate resources are available to complete the projects, it is probable that future economic benefits will be generated and expenditure attributable to the project can be measured reliably. Expenditure capitalised comprises costs of services, direct labour and an appropriate portion of overheads. Other development costs are expensed when they are incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and any impairment losses and amortised over the period of expected future sales from the related projects over 3 years.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying value of development costs is reviewed annually when the asset is not yet available for use, or when events or circumstances indicate that the carrying value be impaired.

Acquisition of Revenue Streams and Contracts

All revenue streams and contracts from acquisitions have been capitalised if the products or service is technically feasible, adequate resources are available to complete the project, it is probable that future economic benefits will be generated and expenditure attributable to the project can be measured reliably. The capitalised revenue streams and contracts is stated at cost less accumulated amortisation and any impairment losses and amortised over the period of expected future sales from the related projects over the relevant period depending on the useful life of the revenue stream/ contracts as outlined below. The carrying value of the acquired revenue streams and contracts is reviewed annually when events or circumstances indicate that the carrying value may be impaired.

Useful lives:

Contracts – 3–4 years

Pipeline sales – 6 months

A summary of the policies applied to the Group's intangible assets is as follows:

Software development – Computer software

Useful lives

Finite – 3 years

Amortisation method used

Amortised over the period of expected future benefit from the related project on a straight-line basis.

Internally generated or acquired

Internally generated

Impairment testing

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

Software development – Developed CiTR AccessPoint computer software

Useful lives

Finite – 3 years

Amortisation method used

Amortised over the period of expected future benefit from the related project on a straight-line basis.

Internally generated or acquired

Internally generated

Impairment testing

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

Acquisition of Revenue Streams and Contracts

Useful lives

Finite – 3 years

Amortisation method used

Amortised over the period of expected future benefit from the related project on a straight-line basis.

Internally generated or acquired

Acquired

Impairment testing

Annually and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end.

Customer commercial relationships

Useful lives

Finite – 10 years

Amortisation method used

Amortised over the period of expected future benefit from the related project on a straight-line basis.

Internally generated or acquired

Acquired

Impairment testing

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

Synergy Trademark

Useful lives

Indefinite

Amortisation method used

Not amortised

Internally generated or acquired

Acquired

Impairment testing

Annually and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Synergy IBM Contract

Useful lives

Indefinite

Amortisation method used

Not amortised

Internally generated or acquired

Acquired

Impairment testing

Annually and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end.

Provisional accounting

Where acquisitions are made in any reporting period, and final figures are not available at the reporting date, the company uses provisional accounting to the extent required and as allowed by relevant accounting standards.

The company has not applied provisional accounting for any entity as at balance date.

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

(q) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 7–60 days of recognition.

(r) Interest-bearing loans and borrowings

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

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

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

Convertible loan notes that exhibit characteristics of a liability and are convertible at the option of the holder, are recognised as a liability in the statement of financial position, net of transaction costs.

On issuance of the convertible loan notes, the fair value of the liability is determined with reference to the contractual agreed amount with the holder and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion. The increase in the liability due to the passage of time is recognised as a finance cost.

Interest on the liability component of the instruments is recognised as an expense in profit or loss.

(s) Borrowing costs

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

Other borrowing costs are recognised as an expense when incurred.

(t) Provisions

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(u) Employee leave benefits

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

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

(ii) Long service leave

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

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Defined contribution superannuation fund.

The Group has a defined contribution superannuation fund. Contributions are recognised as expenses as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(v) Share-based payment transactions

(i) Equity settled transactions:

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

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

- the Hyro Limited Employee Share Option Plan (ESOP), which provides benefits to Directors and senior executives; and
- the Hyro Limited Employee Performance Option Plan (EPOP), which provides benefits to all employees.

Share Options Granted Before 7 November 2002 and/or Vested Before 1 January 2005

No expense has been recognised in respect of options granted before 7 November 2002. Shares are recognised when options are exercised and the proceeds received are allocated to share capital.

Share Options Granted on or After 7 November 2002 and Vested After 1 January 2005

The fair value of options granted under the Hyro Limited Employee Share Option Plan and Employee Performance Option Plan is recognised as an employee benefit expense with a corresponding increase in equity (share option reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. Fair value is determined by an independent valuer using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of Hyro Limited ("market conditions").

The cumulative expense recognised between grant date and vesting date is adjusted to reflect the Directors' best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the employees having to remain with the company until vesting date, or such that employees are required to meet internal sales targets. No expense is recognised for options that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the statement of comprehensive income. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

(w) 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.

(x) Revenue recognition

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

i) Sale of goods

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

(ii) Rendering of services

Revenue from the provision of fixed price online service projects is recognised in accordance with the percentage of completion method. The stage of completion is measured by reference to labour hours incurred to date as a percentage of estimated total labour hours for each contract. Where the contract outcomes cannot be reliably measured, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Revenue from time and materials and consulting services is recognised when the service is provided.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract which is determined by a set quotation with the customer. As the contracts are reasonably short, there is only a small amount outstanding at balance date, as such the level of judgement required is minimal.

When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(iii) Interest income

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

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

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

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

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

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

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

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

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

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

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

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

(z) Other taxes

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

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

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

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

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

(aa) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. They are not credited directly to shareholders equity.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Earnings / Loss per share

Basic earnings per share is calculated as net profit or loss attributable to members of Hyro Limited, divided by the weighted average number of ordinary shares.

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

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

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT POLICIES, OBJECTIVES AND PROCESSES

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

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group considers that the risks do not require the use of derivative financial instruments such as foreign exchange contracts or interest rate swap contracts to hedge these risks.

The categories of financial instruments and their carrying values are:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Financial Assets				
Cash and cash equivalents	2,873	2,480	2,501	1,622
Loans and receivables				
Trade debtors	3,988	6,055	–	–
Other receivables	2,647	301	–	–
Loans to related parties	–	–	458	–
Total loans and receivables at amortised cost	6,635	6,356	458	1,622
Available for Sale Financial Assets	40	40	40	40
Financial Liabilities				
Trade and other payables	4,197	10,850	249	–
Finance lease liabilities	1,351	1,877	–	–
Convertible notes	–	19,825	–	19,825
Total financial liabilities at amortised cost	5,548	32,552	249	19,825

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

Primary responsibility for identification and control of financial risks rests with the Audit Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for credit allowances and future cash flow forecast projections.

(a) Fair values

All assets and liabilities recognised in the statement of financial position, whether they are carried at cost or at fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

(b) Risk Exposures and Management

The Group manages its exposure to key financial risks, including market risk, credit risk and liquidity risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security. Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: currency risk, interest rate risk and other price risk.

a) Currency risk

The Group has operations denominated in currencies other than its reporting currency (the Australian Dollar). However, exposures to other currencies including the Thai Baht are limited to the exchange variations resulting from the translation of the operation's statement of financial position and statement of comprehensive income at closing and average rates respectively. This does not represent a currency risk under AASB 7 and is therefore not considered here.

The Group has also transactional currency exposures arising from sales or purchases by an operating entity in currencies other than the functional currency. Management regularly monitors the effect of any fluctuations in foreign currencies on the value of assets and liabilities and on the Group's cash flows.

At 31 December 2009, the Group did not have any material foreign currency risk in respect of transactions in currencies other than the functional currency.

Sensitivity Analysis

No sensitivity analysis was considered necessary due to the group not having a material exposure to currency risk.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT POLICIES, OBJECTIVES AND PROCESSES (continued)

(b) Risk Exposures and Management (continued)

(i) Market risk (continued)

b) Interest rate risk

The Group's exposure to market interest rates is minimal as all interest-bearing financial instruments are either fixed or are variable rates paid on balances held in operating accounts. The details of the average interest rates on these deposits for both the Group and the Parent are shown in Note 9.

At balance date, the Group had the following fixed interest-bearing financial assets and liabilities that are not designated in cash flow hedges:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Financial Assets				
Short Term Deposits	1,815	2,103	1,502	1,622
Financial Liabilities				
Obligations under finance leases and hire purchase contracts	1,351	1,877	–	–
Convertible Notes	–	19,825	–	19,825
Total	1,351	21,702	–	19,825

The Group's policy is to contract mainly fixed rate debt so as to minimise any impact of interest rate fluctuations on the Group's profit and net assets. The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

Sensitivity Analysis

Group

At 31 December 2009 if interest rates had changed by -/+ 1% from the year-end rates with all other variables held constant, post tax profit for the year would have been $7,000 lower/higher (2008: $3,000 lower/higher) as a result of higher/lower interest income from cash at bank. The current year short term deposits and financial liabilities are all fixed rates.

Parent

At 31 December 2009 if interest rates had changed by -/+ 1% from the year-end rates with all other variables held constant, post tax profit for the year would have been $nil lower/higher (2008: $nil lower/higher) as a result of higher/lower interest income from cash at bank. The current year short term deposits and financial liabilities are all fixed rates.

c) Other Price risk

The Group's exposure to any form of other price risk is minimal and no sensitivity analysis has been performed

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. For the Group, credit risk arises from the financial assets comprising of cash and cash equivalents, trade and other receivables and available for sale financial assets. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

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

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

It is the Group's policy that all customers who wish to trade on 30-day credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. No trade receivables which are considered past due or impaired have had repayment terms renegotiated.

Management determine the concentrations by Geographical region of the receivable.

The amount of risk exposures are measured by the timing of recovery of the debt and the local foreign exchange restrictions which may apply.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT POLICIES, OBJECTIVES AND PROCESSES (continued)

(b) Risk Exposures and Management (continued)

(ii) Credit risk (continued)

For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Refer to Note 10 for an aged analysis of trade and other receivables showing balances which are neither past due nor impaired. At statement of financial position date, amounts which are considered to be impaired have been identified.

(iii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities, third party loans and committed available credit lines. The Group monitors rolling forecasts of liquidity reserves on the basis of cash flow forecasts.

The remaining contractual maturities of the Group's and parent entity's financial liabilities are as follows:

Maturity Analysis – Group 2009

Financial Liabilities	Carrying Amount $'000	Contractual Cash Flows $'000	<6 Months $'000	6 – 12 Months $'000	1 – 3 Years $'000	>3 years $'000
Trade and other payables	4,197	4,197	4,197	–	–	
Finance lease liabilities	1,351	1,351	285	225	841	
Convertible notes	–	–	–	–	–	
Total	5,548	5,548	4,482	225	841	

Financial Assets	Carrying Amount $'000	Contractual Cash Flows $'000	<6 Months $'000	6 – 12 Months $'000	1 – 3 Years $'000	>3 years $'000
Trade debtors	3,988	3,988	3,988	–	–	–
Other receivables	2,647	2,854	654	200	2,000	–
Loans to related parties	–	–	–	–	–	–
Total	6,635	6,842	4,642	200	2,000	–

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT POLICIES, OBJECTIVES AND PROCESSES (continued)

(b) Risk Exposures and Management (continued)

(iii) Liquidity risk (continued)

Maturity Analysis – Group 2008

Financial Liabilities	Carrying Amount $'000	Contractual Cash Flows $'000	<6 Months $'000	6 – 12 Months $'000	1 – 3 Years $'000	>3 years $'000
Trade and other payables	10,850	10,850	10,850	–	–	–
Finance lease liabilities	1,877	2,133	311	311	1,041	469
Convertible notes	19,825	22,475	825	825	20,825	–
Total	32,552	35,458	11,986	1,136	21,866	469

Financial Assets	Carrying Amount $'000	Contractual Cash Flows $'000	<6 Months $'000	6 – 12 Months $'000	1 – 3 Years $'000	>3 years $'000
Trade debtors	6,055	6,055	6,055	–	–	–
Other receivables	301	301	301	–	–	–
Loans to related parties	–	–	–	–	–	–
Total	6,356	6,356	6,356	–	–	–

Maturity Analysis – Parent 2009

Financial Liabilities	Carrying Amount $'000	Contractual Cash Flows $'000	<6 Months $'000	6 – 12 Months $'000	1 – 3 Years $'000	>3 years $'000
Trade and other payables	249	249	–	–	–	–
Finance lease liabilities	–	–	–	–	–	–
Convertible notes	–	–	–	–	–	–
Total	249	249	–	–	–	–

Financial Assets	Carrying Amount $'000	Contractual Cash Flows $'000	<6 Months $'000	6 – 12 Months $'000	1 – 3 Years $'000	>3 years $'000
Trade debtors	–	–	–	–	–	–
Other receivables	–	–	–	–	–	–
Loans to related parties	458	458	458	–	–	–
Total	458	458	458	–	–	–

Maturity Analysis – Parent 2008

Financial Liabilities	Carrying Amount $'000	Contractual Cash Flows $'000	<6 Months $'000	6 – 12 Months $'000	1 – 3 Years $'000	>3 years $'000
Trade and other payables	–	–	–	–	–	–
Finance lease liabilities	–	–	–	–	–	–
Convertible notes	19,825	22,475	825	825	20,825	–
Total	19,825	22,475	825	825	20,825	–

Financial Assets	Carrying Amount $'000	Contractual Cash Flows $'000	<6 Months $'000	6 – 12 Months $'000	1 – 3 Years $'000	>3 years $'000
Trade debtors	–	–	–	–	–	–
Other receivables	–	–	–	–	–	–
Loans to related parties	–	–	–	–	–	–
Total	–	–	–	–	–	–

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

(i) Significant accounting judgments

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Recovery of deferred tax assets – Deferred tax assets are not recognised for deductible temporary differences as management considers that it is not probable that future taxable profits will be available to utilise those temporary differences.

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

(ii) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

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

Non current receivables discount rate

The non-current receivable of $1,792,974 relating to the Synergy sale has been discounted based on a rate of 5.52%.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include technology, economic and political environments and future expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

An impairment loss of $5,560,591 was recognised in the current year in respect of intangibles.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model, with the assumptions detailed in note 24. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted. See note 24.

Estimation of useful lives of assets

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

Depreciation charges are included in note 6.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

5. OPERATING SEGMENTS *(formerly Segment Information)*

Identification of reportable segments

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

The Group is managed primarily on the basis of geographic region as the diversification of the Group's regional operations inherently has notably different risk profiles. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- The products and services provided by the segment
- The type of customer for those products and services; and
- The external regulatory requirements.

Geographic Region by Segments

1. Australia
   Home country of the parent entity and source of significant proportion of the Group's trading

2. International
   Comprising of operations carried on principally in Thailand.

Basis of accounting for purposes of reporting operating segments

a) Accounting Policies Adopted
   Unless stated otherwise, all amounts reported to the Board of directors, being the chief decision maker with respect to operating segments ,are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the group.

b) Segment Assets and Liabilities
   The group has adopted the amendment included in AASB 2009-5. No segment assets or segment liabilities are disclosed as these are not regularly provided to the chief operating decision makers.

c) Unallocated Items
   The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:
   - Impairment intangible asset on consolidation
   - Amortisation of Intangibles on consolidation

d) Comparative Information
   This is the first reporting in which AASB 8 has been adopted. Comparative information has been restated to conform with the requirements of this standard.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

5. OPERATING SEGMENTS (continued)

The following tables present revenue and profit/(loss) information regarding operating segments for the years ended 31 December 2009 and 31 December 2008.

Year ended 31 December 2009	Continuing Operations Australia $'000	International $'000	Total $'000	International Discontinued Operations $'000	Total $'000
Revenue					
Sales to external customers	36,370	3,533	39,903	173	40,076
Inter-segment eliminations	(382)	–	(382)	–	(382)
Interest Received	67	–	67	–	67
Total Segment Revenue	**36,055**	**3,533**	**39,588**	**173**	**39,761**
Reconciliation of segment result to group revenue					
Segment net profit before tax	**14,304**	**368**	**14,672**	**3,314**	**17,986**
Reconciliation of segment result to group net profit/loss before tax					
Unallocated Items					
Amortisation of Intangibles on consolidation	–	–	(1,528)	–	–
Impairment losses	–	–	(5,561)	–	–
Net Profit before tax from continuing operations	–	–	7,583	–	–
Included in the measurement of segment results are the following:					
Interest Expense	1,824	3	1,827	–	–
Depreciation & Amortisation	969	26	995	–	–
Loss on disposal of business unit	919	–	919	–	–
Write off of software and property, plant & equipment	867	–	867	–	–

Year ended 31 December 2009	Continuing Operations Australia $'000	International $'000	Total $'000	International Discontinued Operations $'000	Total $'000
Revenue					
Sales to external customers	51,059	4,782	55,841	5,782	61,623
Inter-segment eliminations	(1,241)	–	(1,241)	–	(1,241)
Interest Received	223	–	223	–	223
Total Segment Revenue	**50,041**	**4,782**	**54,823**	**5,782**	**60,605**
Reconciliation of segment result to group revenue					
Segment net profit before tax	**(18,761)**	**1,238**	**(17,523)**	**(3,141)**	**(20,664)**
Reconciliation of segment result to group net profit/loss before tax					
Unallocated Items					
Amortisation of Intangibles on consolidation	–	–	(3,602)	–	–
Impairment losses	–	–	(23,423)	–	–
Net Profit before tax from continuing operations	–	–	(44,548)	–	–
Included in the measurement of segment results are the following:					
Interest Expense	4,963	175	5,138	–	–
Depreciation & Amortisation	912	113	1,025	–	–
Write off of software and property, plant & equipment	2,609	12	2,621	–	–

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

5. OPERATING SEGMENTS (continued)

Revenue by product or service	2009 $'000	2008 $'000
Revenue attributable to external customers is disclosed below based on the product and service		
Product	8,709	15,790
Annuities	7,325	5,500
Services	23,487	33,310
Interest	67	223
Total Segment revenue	39,588	54,823

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

6. REVENUE AND EXPENSES

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Revenue				
Sale of Goods	8,711	15,790	–	–
Rendering of Services	30,810	38,810	–	–
Interest Received / Receivable	67	223	55	117
Total Revenue	39,588	54,823	55	117
(b) Other Income				
Gain on Debt Derecognition – Convertible Note (refer to note 19)	18,652	–	18,652	–
Management Fee	–	–	2,783	–
Sundry Income	–	67	–	–
ATO Interest and Penalties Waiver	1,754	–	–	–
Total Other Income	20,406	67	21,435	–
(c) Purchases for Resale				
Hardware	6,168	9,748	–	–
Licences	592	1,818	–	–
Services	3,135	4,110	–	–
Total Purchases for Resale	9,895	15,676	–	–

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(d) Employee Benefits Expense				
Wages and salaries	22,229	33,869	865	476
Workers' compensation costs	106	56	–	–
Defined contribution superannuation expense	1,502	929	–	–
Share-based payments	57	134	57	134
Total employee benefits expense	23,894	34,988	922	610

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

6. REVENUE AND EXPENSES (continued)

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(e) Depreciation and Amortisation Expense				
Depreciation of non-current assets				
Office furniture, fittings and equipment	144	165	–	–
Leasehold improvements	245	294	–	–
Computer equipment	416	488	–	
Total depreciation of non-current assets	805	947	–	–
Amortisation of non-current assets				
Software	250	1,080	–	–
Intangibles – Hot Magna	–	131	–	–
ISM Consulting – Contacts and Revenue	–	576	–	–
OPS – Contractual Customer Relationships	559	559	–	–
Synergy – Managed Services Contracts	190	380	–	–
Synergy – Service Pipeline	–	–	–	–
Synergy – Product Pipeline	–	–	–	–
Synergy – Contractual Customer Relationships	779	876	–	–
Total amortisation of non-current assets	1,778	3,602	–	–
Total depreciation and amortisation expense	2,583	4,549	–	–
(f) Impairment of non-current assets				
Impairment of OPS Contractual Relationships	511	–	–	–
Impairment of Synergy Client Relationships	5,050	–	–	–
Impairment of Synergy – Trademark	–	5,598	–	–
Impairment of goodwill	–	17,825	–	–
Total Impairment of non-current assets	5,561	23,423	–	–
(g) Other expenses				
Bad and doubtful debts	(173)	318	–	–
Consultants and IT expense	1,151	1,338	–	–
Travel and entertainment	282	614	–	–
Marketing and advertising expenses	447	549	–	–
Lease payments and other expenses				
Minimum lease payments – operating lease	1,074	1,912	–	–
Other expenses	4,084	8,498	–	354
Total Other Expenses	6,865	13,229	–	354
(h) Finance Costs				
Bank loans and overdrafts - interest paid	–	6	–	–
Tax authorities - interest paid	–	1,955	–	–
Hire purchase – interest paid	210	190	–	–
Convertible notes – interest paid	1,617	2,603	1,617	2,603
Other – interest paid	–	211	–	–
Total Finance costs	1,827	4,965	1,617	2,603

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

7. INCOME TAX

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Income Tax Expense				
Major components of income tax expense are:				
Statement of Comprehensive Income				
Current income tax				
Current income tax charge	–	79	–	–
Deferred income tax				
Relating to origination and reversal of temporary differences	–	–	–	–
Recognition of previously unrecognised tax losses	–	–	–	–
Increase in tax losses for current year	–	–	–	–
Deferred tax liability on intangible assets on business combinations and on convertible notes	(4,455)	(2,662)	(337)	(190)
Income tax expense/(benefit) reported in statement of comprehensive income	(4,455)	(2,583)	(337)	(190)
Attributable to				
Continuing Operations	(4,455)	(2,583)	(337)	(190)
Discontinuing Operations	–	–	–	–
Total	(4,455)	(2,583)	(337)	(190)

(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit/loss before income tax multiplied by the Group's applicable income tax rate is as follows:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Profit / (loss) before income tax from continuing operations	7,583	(44,548)	18,951	(42,486)
Profit / (loss) before income tax from discontinuing operations	3,314	(3,141)	–	–
Total accounting profit / (loss) before income tax	10,897	(47,689)	18,951	(42,486)
At Group's statutory income tax rate of 30% (2008:30%)	3,269	(14,307)	5,685	(12,746)
Unrecognised tax losses now realised	1,554	5,317	191	855
Share based payments (equity settled)	17	40	17	40
Non-deductible expenses	10	1,020	–	26
Loss on sale of Synergy	276	–	–	–
Capital gain on disposal of Synergy	1,615	–	–	–
Intangibles amortisation	304	–	–	–
Write down of investments and goodwill	1,855	5,347	–	11,635
Gain on debt forgiveness – exempt income	(5,596)	–	–	–
Discontinued Operations	(994)	–	–	–
Non Assessable Income	(110)	–	(5,596)	–
Timing differences	(680)	–	(634)	–
Tax losses brought to account not previously recognised	(5,975)	–	–	–
Aggregate income tax expense/(benefit)	(4,455)	(2,583)	(337)	(190)
Continuing operations	(4,455)	(2,583)	(337)	(190)
Aggregate income tax expense/(benefit)	(4,455)	(2,583)	(337)	(190)

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

7. INCOME TAX (continued)

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(c) Recognised deferred tax assets and liabilities				
Deferred tax at 31 December relates to the following:				
Statement of Financial Position				
(i) Deferred tax liabilities				
Arising on intangible on acquisition	–	4,119	–	–
Arising on convertible note	–	336		337
Gross deferred tax liabilities	–	4,455		337
(ii) Deferred income tax assets				
Employee benefits	–	–	–	–
Software	–	–	–	–
Accruals	–	–	–	–
Tax Losses	–	–	–	–
Gross deferred tax assets	–	–	–	–

(d) Tax losses

Although the company has tax losses of $2,772,522 (2008: $7,146,000) from its operations, deferred tax assets in relation to these will not be recognised until it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. In addition, the changing of ownership that resulted from the company's past fund raisings and changes in the company's business activities since some of the losses were incurred may mean that not all of the tax losses will be available as a deferred tax asset in the future.

Hyro Limited and its wholly owned Australian entities have decided not to implement the tax consolidation legislation for the entire year.

(e) Unrecognised temporary differences

No deferred tax liability has been recognised as the parent entity is able to control the timing of distributions from this subsidiary and it is not expected to distribute these profits in the foreseeable future.

Subsidiaries located in Hong Kong, Thailand and Singapore incur different tax rates depending on whether profits are retained in the entity or paid as dividends. The deferred tax expense has been measured using the tax rates applicable to undistributed profits. If all the undistributed profits in these subsidiaries are paid out as dividends, the tax consequences for the Group would be $nil (2008: $nil).

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

8. EARNINGS PER SHARE

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

	Consolidated	
	2009 $'000	2008 $'000
(a) Earnings used in calculating earnings per share		
For basic earnings per share:		
Profit / (loss) after income tax from continuing operations	12,038	(41,965)
Profit / (loss) after income tax from discontinuing operations	3,314	(3,141)
Total profit / (loss) after income tax	15,352	(45,106)
(Profit)/Loss from operations attributable to minority interest	-	–
Net Profit /(loss) attributable to ordinary equity holders of the parent	15,352	(45,106)
For diluted earnings per share		
Net Profit/(loss) attributable to ordinary equity holders of the parent	15,352	(45,106)

	Thousands	Thousands
(b) Weighted average number of shares		
Weighted average number of ordinary shares used as denominator in calculating basic earnings per share	578,517	533,371
Effect of dilution	–	–
Share Options	–	–
Weighted average number of ordinary shares adjusted for the effect of dilution	578,517	533,371

For purposes of calculating the diluted earnings per share the denominator has excluded the number of options.

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

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

9. CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash at bank and on hand	1,058	377	999	–
Short term deposits	1,815	2,103	1,502	1,622
Total cash and cash equivalents	2,873	2,480	2,501	1,622

Consolidated

The effective interest rate on cash at bank and at hand is 3.75% (2008: 4.9%). Out of the short term deposits, $1,549k (2008: 1,668k) is secured against property leases (refer to note 25) and is not available for liquidity purposes. Short-term deposits are made for varying periods of between one month and three months and earn an effective interest rate of ranging from 3.84% to 4.25% (2008: ranging from 5.0% to 7.45%).

Parent

Cash at bank and at hand is non interest bearing. All short term deposits are secured against property leases (refer to note 25) and are not available for liquidity purposes. Short-term deposits are made for varying periods of between one month and three months and earn an effective interest rate of 3.84% (2008: 7.45%).

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Reconciliation to Statement of Cash Flows				
For the purposes of the Statement of cash flows, cash and cash equivalents comprise the following:				
Cash at bank and in hand	1,058	377	999	–
Short-term deposits	1,815	2,103	1,502	1,622
	2,873	2,480	2,501	1,622

Concentration of Risk

The maximum exposure to credit risk at balance date by country is as follows:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Australia	2,598	1,847	2,501	1,622
New Zealand	–	18	–	–
Thailand	275	494	–	–
Hong Kong	–	119	–	–
China	–	2	–	–
Total	2,873	2,480	2,501	1,622

As per the table above, the majority of cash at balance date is held in Australia. All cash holdings in Australia are held with three licensed financial institutions and are subject to relevant prudential controls and government guarantees, where these apply.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

10. TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Trade receivables	4,101	6,555	–	–
Allowance for impairment loss	(123)	(500)	–	–
	3,978	6,055	–	–
Sundry debtors and receivables	864	300	–	–
Amounts receivable from wholly owned group entities	–	–	458	–
Carrying amount of trade and other receivables	4,842	6,355	458	–
Non-current				
Deferred consideration on Synergy sale	1,793	–	–	–

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30 day terms. An allowance for impairment loss is recognised when there is objective evidence that a trade receivable is impaired. An allowance for impairment loss of $64,000 (2008: $316,000) has been recognised by the Group and $nil (2008: $nil) by the Company in the 'other expenses' line item for the current year for specific debtors and debtors assessed on a collective basis.

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

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
At 1 January	(500)	(917)	–	–
Charge for the year	(64)	(316)	–	–
Amounts reversed / (utilised)	441	733	–	–
At 31 December	(123)	(500)	–	–

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
At 31 December, the ageing analysis of trade receivables is as follows:				
0 – 30 days	1,982	4,045	–	–
0 – 30 days PDNI*	475	958	–	–
31 – 60 days PDNI*	909	954	–	–
61 – 90 days PDNI*	440	276	–	–
60- 90 days CI*	2	42	–	–
91 – 120 days PDNI*	126	38	–	–
91 – 120 days CI*	7	8	–	–
+120 days PDNI*	45	9	–	–
+120 days CI*	115	225	–	–
Total	4,101	6,555	–	–

* Past Due Not Impaired ('PDNI')
* Considered Impaired ('CI')

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

10. TRADE AND OTHER RECEIVABLES (continued)

Receivables past due but not considered impaired are: Consolidated $1,995,000 (2008: $1,281,000); Parent $nil (2008: $nil). Payment terms on these amounts have not been renegotiated. Of the amounts past due at 31 December 2009, as at the date of this report, the majority have been settled. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

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

(b) Related party receivables

For terms and conditions relating to related party receivables refer to note 27.

(c) Fair value, credit risk and interest rate risk

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

The fair value of non-current receivables approximates its carrying value.

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

Details regarding the credit risk, interest rate risk and effective interest rate of current receivables are disclosed below and in note 3.

(d) Credit Risk by Geographic Area

The maximum exposure to credit risk at balance date by country is as follows:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Australia	6,584	5,880	458	–
New Zealand	–	134	–	–
Thailand	51	341	–	–
Hong Kong	–	–	–	–
China	–	–	–	–
Total	6,635	6,355	458	–

The company trades with diverse customers spread across diverse industry segments in both the public and private sectors. As such, the company does not believe that there is material credit risk by industry.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

11. INVENTORIES

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Finished goods				
At Cost	-	7	–	–
Total	-	7	–	–

12. OTHER

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Prepayments	232	175	–	–
Work in Progress	406	476	–	–
Total	638	651	–	–

13. OTHER FINANCIAL ASSETS

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Non-Current				
Investments in controlled entities - at cost (note 28)	–	–	50,238	50,238
Provision for impairment	–	–	(50,238)	(50,238)
Total	–	–	–	–

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For the year ended 31 December 2009

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
At Fair Value				
Shares - Unlisted	40	40	40	40
Total	40	40	40	40

Available-for-sale financial assets consist of investment in ordinary shares in OnAir N.V. (OnAir), a public company under the Dutch law and therefore have no fixed maturity date or coupon rate.

On 23 December 2004 the Directors of Tenzing released to stockholders for their approval an information statement on the terms of a joint venture agreement between Airbus, SITA and Tenzing. The joint venture company is OnAir. The transaction required Tenzing to "sell, contribute and license substantially all of its assets and liabilities in exchange for US$11,700,000 of aggregate value of OnAir equity which shall represent an approximately 28.5% ownership stake in OnAir." As a result, Hyro's investment in Tenzing has been converted to 302 shares, numbered C53,518 through C53,819 in OnAir.

The Directors of Hyro have determined that, based on OnAir's most recent shareholder communications, the fair value of the company's interest in OnAir remains $40,000 (2008: $40,000). No valuation technique has been used to determine the fair value of the investment.

As a result of the above matters there is no longer significant uncertainty in determining the fair value of the investment. At this time the Directors are of the view that the outlook for OnAir is positive. The Directors will continue to regularly monitor OnAir's progress and where necessary, any required adjustment to the carrying value of the investment will be made.

15. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Plant and equipment				
At cost	1,064	1,393	–	–
Accumulated depreciation	(335)	(416)	–	–
Net carrying amount	729	977	–	–
Leasehold improvements				
At cost	1,351	2,440	–	–
Accumulated depreciation	(404)	(597)	–	–
Net carrying amount	947	1,843	–	–
Computer equipment				
At cost	1,191	1,868	–	–
Accumulated depreciation	(356)	(441)	–	–
Net carrying amount	835	1,427	–	–
Total property, plant and equipment				
At cost	3,606	5,700	–	–
Accumulated depreciation	(1,095)	(1,454)	–	–
Net carrying amount	2,511	4,246	–	–

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Plant and equipment				
Balance at the beginning of the year				
Net carrying amount	977	1,115	–	–
Additions	10	558	–	–
Impairment at net book value	–	(506)	–	–
Disposals	(114)	–	–	–
Depreciation charge for the year	(144)	(190)	–	–
Balance at the end of the year – Net carrying amount	729	977	–	–
Leasehold improvements				
Balance at the beginning of the year				
Net carrying amount	1,843	1,243	–	–
Additions	234	1,368	–	–
Disposals	(815)	–	–	–
Impairment at net book value	–	(464)	–	–
Depreciation charge for the year	(313)	(304)	–	–
Net Exchange Differences	(1)	–	–	–
Balance at the end of the year – Net carrying amount	948	1,843	–	–
Computer equipment				
Balance at the beginning of the year				
Net carrying amount	1,426	1,965	–	–
Additions	54	930	–	–
Disposals	(214)	–	–	–
Impairment at net book value	–	(938)	–	–
Depreciation charge for the year	(416)	(531)	–	–
Net Exchange Differences	(16)	–		–
Balance at the end of the year – Net carrying amount	835	1,426	–	–
Total property, plant and equipment				
Balance at the beginning of the year				
Net carrying amount	4,246	4,324	–	–
Additions	298	2,856	–	–
Disposals	(1,143)	–		
Impairment at net book value	–	(1,908)	–	–
Depreciation charge for the year	(873)	(1,025)	–	–
Net Exchange Differences	(17)	–	–	–
Balance at the end of the year – Net carrying amount	2,511	4,246	–	–

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

16. INTANGIBLES AND GOODWILL

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Software				
Cost (gross carrying amount)	1,910	3,588	–	–
Accumulated amortisation and impairment	(1,693)	(3,226)	–	–
Net carrying amount	217	362	–	–
HotMagna contracts and revenue				
Cost (gross carrying amount)	945	945	–	–
Accumulated amortisation and impairment	(945)	(945)	–	–
Net carrying amount	–	–	–	–
ISM Consulting Group contracts and revenue streams				
Cost (gross carrying amount)	4,055	4,055	–	–
Accumulated amortisation and impairment	(4,055)	(4,055)	–	–
Net carrying amount	–	–	–	–
Goodwill				
Cost (gross carrying amount)	24,558	24,558	–	–
Impairment	(24,558)	(24,558)	–	–
Net carrying amount	–	–	–	–
OPS customer contracts				
Cost (gross carrying amount)	90	90	–	–
Accumulated amortisation and impairment	(90)	(47)	–	–
Net carrying amount	–	43	–	–
OPS labour hire customers				
Cost (gross carrying amount)	1,228	1,228	–	–
Accumulated amortisation and impairment	(1,228)	(640)	–	–
Net carrying amount	–	588	–	–
Application development customers				
Cost (gross carrying amount)	916	916	–	–
Accumulated amortisation and impairment	(916)	(477)	–	–
Net carrying amount	–	439	–	–
Synergy Managed Service Contracts				
Cost (gross carrying amount)	–	1,139	–	–
Accumulated amortisation and impairment	–	(617)	–	–
Net carrying amount	–	522	–	–
Synergy Trademark				
Cost (gross carrying amount)	–	2,941	–	–
Accumulated amortisation and impairment	–	–	–	–
Net carrying amount	–	2,941	–	–
Synergy Other Services Pipeline				
Cost (gross carrying amount)	1,920	1,920	–	–
Accumulated amortisation and impairment	(1,920)	(1,920)	–	–
Net carrying amount	–	–	–	–

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

16. INTANGIBLES AND GOODWILL (continued)

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Synergy Product Pipeline				
Cost (gross carrying amount)	2,321	2,321	–	–
Accumulated amortisation and impairment	(2,321)	(2,321)	–	–
Net carrying amount	–	–	–	–
Synergy IBM Contract				
Cost (gross carrying amount)	–	7,532	–	–
Accumulated amortisation and impairment	–	(5,598)	–	–
Net carrying amount	–	1,934	–	–
Synergy Contractual Customer Relationships				
Cost (gross carrying amount)	6,846	8,750	–	–
Accumulated amortisation and impairment	(6,846)	(1,422)	–	–
Net carrying amount	–	7,328	–	–
Total Intangibles				
Cost (gross carrying amount)	44,789	59,983	–	–
Accumulated amortisation and impairment	(44,572)	(45,826)	–	–
Net carrying amount	217	14,157	–	–

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

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Software				
Balance at the beginning of the year				
Cost (gross carrying amount)	3,588	4,446	–	–
Accumulated amortisation and impairment	(3,226)	(2,585)	–	–
Carrying amount – opening	362	1,861	–	–
Additions	20	294	–	–
Amortisation expense	(165)	(1,080)	–	–
Impairment at net book value	–	(713)	–	–
Carrying amount - closing	217	362	–	–
Hot Magna				
Balance at the beginning of the year				
Cost (gross carrying amount)	945	945	–	–
Accumulated amortisation and impairment	(945)	(814)	–	–
Carrying amount – opening	–	131	–	–
Amortisation expense	–	(131)	–	–
Carrying amount - closing	–	–	–	–
ISM Consulting Group				
Balance at the beginning of the year				
Cost (gross carrying amount)	4,055	4,055	–	–
Accumulated amortisation and impairment	(4,055)	(3,479)	–	–
Carrying amount – opening	–	576	–	–
Amortisation expense	–	(576)	–	–
Carrying amount - closing	–	–	–	–

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For the year ended 31 December 2009

16. INTANGIBLES AND GOODWILL (continued)

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

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
OPS – Contractual Customer Relationships				
Balance at the beginning of the year				
Cost (gross carrying amount)	2,234	2,234	–	–
Accumulated amortisation and impairment	(1,164)	(605)	–	–
Carrying amount – opening	1,070	1,629	–	–
Amortisation expense	(559)	(559)	–	–
Impairment during the year	(511)	–		
Carrying amount - closing	–	1,070	–	–
Intangibles on acquisition				
Balance at the beginning of the year				
Cost (gross carrying amount)	24,604	24,604	–	–
Accumulated amortisation and impairment	(11,879)	(5,025)	–	–
Carrying amount – opening	12,725	19,579	–	–
Amortisation expense	(969)	(1,256)	–	–
Impairment during the year	(5,050)	(5,598)	–	–
Disposals	(6,706)			
Carrying amount - closing	–	12,725	–	–
Goodwill				
Balance at the beginning of the year				
Cost (gross carrying amount)	24,558	24,753	–	–
Accumulated impairment	(24,558)	(6,733)	–	–
Carrying amount – opening	–	18,020	–	–
Revaluation of Getronics HK Goodwill (1)	–	(195)	–	–
Impairment expense	–	(17,825)	–	–
Carrying amount - closing	–	–	–	–
Total Intangibles				
Balance at the beginning of the year				
Cost (gross carrying amount)	59,984	61,037	–	–
Accumulated amortisation and impairment	(45,827)	(19,241)	–	–
Carrying amount – opening	14,157	41,796	–	–
Additions	20	294	–	–
Disposals	–	(713)	–	–
Amortisation expense	(1,693)	(3,602)	–	–
Impairment during the year	(5,561)	(23,423)	–	–
Revaluation adjustments	–	(195)	–	–
Disposals	(6,706)		–	–
Carrying amount - closing	217	14,157	–	–

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

16. INTANGIBLES AND GOODWILL (continued)

(d) Impairment losses recognised

An impairment loss of $5.6 million (2008 - $5.6million) for intellectual property was recognised for the continuing operations in the 2009 financial year which has been recognised in the Statement of Comprehensive Income in the line item “Impairment expense”.

The reason for the impairment is based on the directors’ assessment as a result of the annual impairment review that no future economic benefit can be obtained from the asset.

(e) Disposal of Intangible Assets as part of Sale of Business Assets

As previously announced to the market, on 30 June 2009 Synergy Plus Pty Ltd (a 100% owned subsidiary of Hyro Ltd) completed the sale of certain aspects of the Synergy Plus business to ComputerCORP Ltd (now known as Synergy Plus Limited). The business assets sold and included in the calculation of the gain on disposal are specified below.

The purchase consideration is set at a minimum of $6.5m and a maximum of $9.3m payable in stages between 2009 and 2012 as specified in the agreement. The final payments to be made will be determined based on the Synergy Plus business achieving its internal profit forecasts in the financial years ended 31 December 2010, 2011 and 2012. Hyro have recognised consideration receivable of $6.5m as at 30 June 2009 on the basis that the additional consideration of $2.8m is contingent upon profit targets being met which cannot be determined with a high degree of certainty at this stage.

In addition a further amount of $669,760, representing the net profit calculated by Management made by the specified parts of the business for the period 1 March 2009 and 30 June 2009 has been deducted from the consideration payable in order to reflect the ‘effective date’ specified in the agreement of 1 March 2009.

Consideration Receivable	2009 $'000
Purchase price	6,500
Less:	
Cash Price Equivalent Adjustment	(207)
Deduction of Net Profit for 4 months of Trading	(670)
Total Disposal Consideration	5,623
Carrying Amounts of Net Assets Sold	
Synergy Trademark	2,941
Synergy IBM Contract	1,933
Synergy Managed Services Contracts	332
Synergy Contractual Customer Relationships	1,500
Plant & Equipment	234
Stock	7
Employee Entitlements	(405)
	6,542
Loss on Sale of Business Assets	919
Disposal Consideration is Discharged as Follows:	
Creditors forgiven/paid by purchaser	1,589
Cash paid during the year	1,625
Cash due in less than one year	616
Cash due in more than one year	1,793
	5,623

The Directors note that quantification of the precise carrying value of assets sold in relation to the “Synergy Contractual Customer Relationships” is by its nature difficult and subjective. However, the Directors also note that the carrying value of this intangible asset has been impaired down to Nil, in any case, and therefore any effect on the accounts only relates to profit and loss account line classifications.

Notes to and forming part of the Financial Statements

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17. TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade payables	1,714	4,775	–	–
Sundry creditors	2,678	6,075	249	–
Deferred revenue	250	25	–	–
Annual Leave Accrued	546	786	–	–
	5,188	11,661	249	–
Related party payables				
Wholly-owned group-controlled entities	–	–	–	–
	–	–	–	–
	5,188	11,661	249	–

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

(b) Trade payables
Trade payables are non-interest bearing and are normally settled on 7 to 60-day terms.

(c) Sundry creditors
Sundry creditors are non-trade payables, non-interest bearing and have an average term of 7 to 60-day terms.

18. PROVISIONS

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Excess premises	505	574	224	353
Fit out	80	80	–	–
Long Service Leave	373	183	–	–
	958	837	224	353
Non-current				
Make good	273	213	–	–
Fit out	576	657	–	–
Long Service Leave	236	477	–	–
	1,085	1,347	–	–

Nature and timing of provisions

Long service leave

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

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

19. INTEREST-BEARING LOANS AND BORROWINGS

	Maturity	Consolidated		Parent	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current					
Secured					
Obligations under finance leases and hire purchase contracts (note 25)	2010	510	507	–	–
Convertible notes		–	19,825	–	19,825
Unsecured					
Unsecured creditors – Tax authorities (note 19(d))		9,598	10,101	–	–
		10,108	30,433	–	19,825
Non-current					
Secured					
Obligations under finance leases and hire purchase contracts (note 25)	2011-2013	841	1,369	–	–
Convertible notes		–	–	–	–
		841	1,369	–	–

Settlement of Lehman Brothers Convertible Note

In August 2009, the culmination of previous discussions with the Lehman Brothers liquidators crystalised with the issue of 107,000,000 Hyro Limited shares and a cash payment of $757,000 to Lehman Brothers International (Europe) (in administration) to extinguish the convertible note liability of $21,441,933 in line with an agreement negotiated with the liquidators in 2008. In addition, the fixed and floating charges which existed over Hyro's business were also released. The gain on debt recognition was $18,651,934 (refer to note 6(b)).

For terms and conditions attached to each type of borrowing, refer to section (a) below and to note 25 for the finance leases.

(a) Terms and conditions

Current interest-bearing loans and borrowings

Hire purchase contracts

The hire purchase contracts were secured against the value of office fitouts.

(b) Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Total facilities				
Convertible notes	–	20,000		20,000
	–	20,000		20,000
Facilities used at reporting date				
Convertible notes	–	20,000		20,000
	–	20,000		20,000
Facilities unused at reporting date				
Convertible notes	–	–	–	–
	–	–	–	–

Refer to section (a) above for information on the facilities available, including the nature of each arrangement and where applicable, the terms of extension.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

19. INTEREST-BEARING LOANS AND BORROWINGS (continued)

(c) Fair Values

The carrying amounts and fair values of interest bearing liabilities at balance date are:

Group	2009		2008	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Convertible Notes	–	–	19,825	3,340
Lease Liabilities	1,351	1,351	1,877	1,741
	1,351	1,351	21,702	5,081

Parent	2009		2008	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Convertible Notes	–	–	19,825	3,340
Lease Liabilities	–	–	–	–
	–	–	19,825	3,340

The fair value of on-statement of financial position financial liabilities is determined by reference to market prices where they exist or by discounting future cash flows by the current interest rate for liabilities with similar risk profiles except for in 2008 Convertible Notes which were determined with reference to likely settlement value of the note based on of the settlement agreed with the administrator of LBCCAL at the time.

(d) Unsecured creditors – Tax Authorities

Amounts owing to the Australian Taxation Office (ATO) are disclosed in the statutory accounts as part of Current Liabilities. It is relevant to note that the Group has an ongoing payment plan agreement with the ATO. The agreement, most recently confirmed in writing by the ATO after balance date in February 2010 provides for minimum repayments of overdue amounts of $1,200,000 in the twelve months to 31 December 2010.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

20. CONTRIBUTED EQUITY

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Ordinary shares	106,288	104,254	106,288	104,254
Convertible notes	1,346	1,346	1,346	1,346
	107,634	105,600	107,634	105,600
Ordinary shares				
Issued and full paid	106,288	104,254	106,288	104,254

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

	Date	No. Of Shares	Issue Price	Average Weighted Share Price on Date of issue	$'000
Movement in Ordinary Shares					
As at 1 January 2008		530,898,797			103,983
Employee Benefits	25 February 2008	180,000	0.060	0.074	10
Issue to V Aghtan	4 June 2008	4,000,000	0.065	0.065	260
Employee Benefits	19 August 2008	50,000	0.010	0.038	1
As at 1 January 2009		535,128,797			104,254
Issue to Lehman Brothers	6 August 2009	107,000,000	0.019	0.019	2,033
Employee Benefits	17 December 2009	50,000	0.010	0.029	1
As at 31 December 2009		642,178,797			106,288

Ordinary shares

Ordinary shareholders are entitled to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on shared held. Every ordinary shareholders present at a meeting in person or by proxy is entitled to one vote on a show of hands or by poll.

Employee option plans

Details of the Employee Share Option Plan and the Employee Performance Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in note 24.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

20. CONTRIBUTED EQUITY (continued)

Capital management

The Group considers its capital to comprise its ordinary share capital, reserves and accumulated retained earnings (losses).

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions.

Gearing Ratios	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Finance leases	1,351	1,877	–	–
Convertible notes	-	19,825	–	19,825
Less cash and cash equivalents	(2,873)	(2,480)	(2,501)	(1,622)
Net Debt	(1,522)	19,222	(2,501)	18,203
Contributed equity	107,634	105,600	107,634	105,600
Accumulated losses	(114,537)	(129,889)	(106,478)	(125,765)
Reserves	1,637	1,910	1,369	1,312
Total Equity	(5,266)	(22,379)	2,525	(18,853)
Total Capital	3,744	(41,601)	5,026	(37,056)
Gearing Ratio	245.8%	(216.4%)	(201.0%)	(203.57)

As at balance date, cash and cash equivalents exceeded debt by $1.5 million and therefore the Group has no net debt.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

21. RESERVES

	Consolidated			Parent	
	Foreign currency translation reserve $'000	Employee equity benefits reserve $'000	Total $'000	Employee equity benefits reserve $'000	Total $'000
At 1 January 2008	–	1,439	1,439	1,439	1,439
Share based payment – options granted	–	89	89	89	89
Share based payment – options forfeited	–	(215)	(215)	(215)	(215)
Exchange differences on translation	597	–	597	–	–
At 31 December 2008	597	1,313	1,910	1,313	1,313
Share based payment – options granted	–	57	57	57	57
Share based payment – options forfeited	–	–	–	–	–
Exchange differences on translation	(330)	–	(330)	–	–
At 31 December 2009	267	1,370	1,637	1,370	1,370

Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to note 24 for further details of these plans.

22. MINORITY INTEREST

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Contributed Equity	–	–	–	–
Retained earnings	–	–	–	–
Reserves	–	–	–	–
	–	–	–	–

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

23. STATEMENT OF CASH FLOWS RECONCILIATION

(a) Reconciliation of net loss after tax to net cash flows from operations

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Net Profit /(loss)	15,352	(45,106)	19,288	(42,486)
Adjustments for:				
Depreciation	805	1,025	–	–
Amortisation	1,778	3,575	–	–
Discount on acquisition	–	(63)	–	–
Impairment of goodwill and intangible assets	5,561	23,427	–	–
Gain on Debt Forgiveness	(18,652)	–	(18,652)	–
Loss on disposal of business assets	919			
Write off of software, property, plant and equipment	867			
Write down of investments	–	–	–	39,902
Foreign exchange movement	(330)	492	–	–
Non-Operating movement included in intercompany payables	–	–	–	(422)
Decrease in deferred tax liability, net of arising on acquisition of intangibles and issue of convertible notes	–	(2,716)	–	(190)
Decrease/(increase) in deferred tax asset	(4,455)	–	(337)	–
Non-cash interest charged on convertible note	1,617	2,603	1,617	2,603
Non-cash share based payments	–	133	–	133
Impairment of property, plant and equipment	–	2,621	–	–
Share based payment	57	–	57	–
Decrease / (Increase) in income tax provision	(213)	53	–	–
Decrease / (Increase) in trade and other receivables	(280)	14,799	(458)	–
Decrease in inventory	7	284	–	–
Decrease/(Increase) in other assets	13	647	–	–
(Decrease) / Increase in trade and other payables (net of deferred consideration)	(2,311)	(7,358)	250	–
(Decrease) / Increase in deferred revenue	225	(593)	–	–
Increase in unsecured creditor	(503)	6,644	–	–
Increase/(Decrease) in provisions	(23)	1,605	(129)	354
Net cash flows from / (used in) operating activities operating activities	434	2,072	1,636	(106)

(b) Disclosure of financing activities

Refer to note 19.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

23. STATEMENT OF CASH FLOWS RECONCILIATION (continued)

(c) Non-cash financing and investing activities.

Disposal of Business Unit

During the year the computer infrastructure procurement and services business was sold. Aggregate details of this transaction are as disclosed in note 16 (e). Of the consideration due $1,589,000 was discharged via creditors forgiven/paid by the purchaser.

Settlement of Lehman Brothers Convertible Note

During the year 107,000,000 ordinary shares were issued at $0.019 and $757,000 cash were applied to extinguish the convertible note liability of $21,441,933. The gain on debt derecognition was $18,651,934.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

24. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

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

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Expense arising from equity-settled share-based payment transactions	57,484	133,312	57,484	133,312
Total expense arising from share-based payment transactions	57,484	133,312	57,484	133,312

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2008 or 2009.

(b) Types of share-based payment plan

Employee Share Option Plan, 'ESOP' and 'EPOP'

The Company had an Employee Share Option Plan ("the ESOP Plan") for the benefit of its employees at the start of the year. As at 31 December 2009 the Company has no employee share options on issue under this plan. The board has agreed to disband the plan effective 31 December 2009.

Employee Share Performance Plan, 'EPOP'

The Company has an existing Employee Performance Option Plan ("the EPOP Plan") for the benefit of its employees. As at 31 December 2009 the Company has 9,824,700 employee share options on issue under this Plan.

Equity Participation Plan, 'EPP'

The Company has an Equity Participation Plan in place for the benefit of the Chief Executive Officer. As at 31 December 2009 the Company has 10,702,576 share options on issue under this Plan.

(c) Share Options under ESOP

No ESOP options were granted during or since the end of the financial year to any of the Directors or the key management personnel of the Company and Group as part of their remuneration.

Unissued ordinary shares of Hyro Limited under the Hyro Employee Share Option Plan at the date of this report are as follows:

Date options granted	Expiry Date	Exercise Price $	Balance at start of the year Number	Issued during the year Number	Lapsed during the year Number	Exercised During the Year Number	Balance at end of the year (all exercisable) Number
25 February 2002	25 February 2009	0.50	500	–	(500)	–	–
19 December 2003	19 December 2009	0.50	100,000	–	(100,000)	–	–
19 December 2003	19 December 2009	0.16	150,000	–	(150,000)	–	–
Total			250,500	–	(250,500)	–	–

The Weighted Average Exercise Price of options on issue at balance date is $0.00 (2008 $0.296)

The weighted average remaining contractual life of share options outstanding at 31 December 2009 was 0 days (2008: 352 days)

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

24 SHARE-BASED PAYMENT PLANS (continued)

(d) Share Options under EPOP

The Company has an existing Employee Performance Option Plan ("the EPOP Plan") for the benefit of its employees. As at 31 December 2009 the Company has 9,824,700 employee share options on issue under this Plan. The options have varying vesting dates and all options expire 5 to 7 years from the vesting date.

No EPOP options were granted during or since the end of the financial year to any of the Directors.

Unissued ordinary shares of Hyro Limited under the Hyro EPOP Plan as at 31 December 2009 are as follows:

Date options granted	Expiry Date	Exercise price $	Balance at start of the year Number	Issued during the year Number	Lapsed during the year Number	Exercised during the year Number	Balance at end of the year Number	Exercisable at end of the year
13 September 2005	30 Jun 2012	0.010	300,000	–	–	(50,000)	250,000	250,000
20 December 2005	31 Dec 2012	0.060	974,100	–	–	–	974,100	974,100
24 August 2006	1 Sep 2011	0.086	4,000,000	–	–	–	4,000,000	4,000,000
20 December 2006	31 Dec 2012	0.060	94,100	–	–	–	94,100	94,100
22 December 2006	1 Dec 2011	0.086	140,000	–	–	–	140,000	140,000
22 December 2006	1 Mar 2012	0.060	15,000	–	–	–	15,000	15,000
22 December 2006	1 Jun 2012	0.060	990,000	–	–	–	990,000	990,000
22 December 2006	1 Sep 2012	0.086	195,000	–	–	–	195,000	195,000
22 December 2006	1 Dec 2012	0.086	60,000	–	–	–	60,000	60,000
22 December 2006	31 Dec 2012	0.060	82,600	–	–	–	82,600	82,600
22 December 2006	1 Dec 2013	0.086	–	–	–	–	–	–
17 January 2007	1 Jul 2013	0.060	–	–	–	–	–	–
24 January 2007	1 Jan 2013	0.086	50,000	–	–	–	50,000	50,000
17 May 2007	31 Dec 2012	0.250	816,000	–	–	–	816,000	816,000
17 May 2007	14 May 2013	0.010	100,000	–	–	–	100,000	100,000
17 May 2007	14 May 2013	0.060	130,800	–	–	–	130,800	130,800
17 May 2007	14 May 2013	0.086	225,000	–	–	–	225,000	225,000
20 August 2007	1 Jul 2013	0.250	–	–	–	–	–	–
8 November 2007	29 Jan 2014	0.250	–	–	–	–	–	–
17 December 2007	17 Dec 2013	0.086	–	–	–	–	–	–
17 December 2007	17 Dec 2013	0.250	–	–	–	–	–	–
16 April 2008	31 Dec 2013	0.086	175,000	–	–	–	175,000	175,000
28 February 2008	31 Dec 2013	0.100	1,575,800	–	(48,700)	–	1,527,100	1,527,100
Total			9,923,400	–	(48,700)	(50,000)	9,824,700	9,824,700

The Weighted Average Exercise Price of options on issue at balance date is $0.093 (2008 $0.093).

The number of options that may be granted under the EPOP Plan is subject to the overriding limit that immediately following the grant the aggregate number of shares, together with all unissued shares underlying options on issue, and any other employee share or option scheme established by the Company in the preceding five year period, must not exceed 5% of the shares on issue at that time. The principal rules governing the operation of the EPOP Plan are as follows:

(a) The board is responsible for determining the number of option granted to each employee and all employees are eligible to receive options;

(b) Vesting conditions in relation to options are determined by the board at the time of determination of option entitlements;

(c) Options which have not vested when an employee ceases their employment will lapse unless an employee ceases to be employed through death, retirement or disablement, in which case special provisions apply;

(d) The share option exercise price is determined by the board;

(e) The acquisition price of the options are nil, unless the board determines that it should be any other amount;

(f) Share options issued pursuant to the EPOP Plan are not transferable; and

(g) Options are not exercised within 7 years from their date of issue lapse.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

24 SHARE-BASED PAYMENT PLANS (continued)

No option holder has any right under the EPOP or ESOP options to participate in any other share issue of the company or of any other equity.

The weighted average remaining contractual life of share options outstanding at 31 December 2009 was 933 days or 2.55 years (2008 – 1,300 days or 3.56 years).

(e) Share Options under EPP

The Company has an Equity Participation Plan in place for the benefit of the Chief Executive Officer. As at 31 December 2009 the Company has 10,702,576 share options on issue under this Plan.

Unissued ordinary shares of Hyro Limited under the Hyro EPOP Plan as at 31 December 2009 are as follows:

Date options granted	Expiry Date	Exercise price $	Balance at start of the year Number	Issued during the year Number	Lapsed during the year Number	Exercised during the year Number	Balance at end of the year Number	Exercisable at end of the year
29 May 2009	Upon cessation of employment	0.01	–	10,702,576	–	–	10,702,576	–
Total			–	10,702,576	–	–	10,702,576	–

Terms of these share options are detailed in the Remuneration Report.

(f) Option pricing model: EPP

Equity-settled transactions

The weighted average fair value of options granted during the year was 0.93 cents (2008: 4.30 cents). The fair value at grant date was determined by an independent valuator using a Black-Scholes option pricing model that takes into account the share price at grant date, exercise price, expected dividends, the risk free rate, vesting and performance criteria, the impact of dilution, the fact that the options are not tradable.

The input used for the Black-Scholes option pricing model for options granted during the year ended 31 December 2009 were as follows:

Date options granted	Expiry date	Share price at grant rate $	Exercise price $	Expected volatility %	Expected dividend yield %	Risk free rate %
29 May 2009	Upon cessation of employment	0.022	0.010	90%	0%	4.675%

Expected volatility was determined based on the historic volatility (based on the remaining life of the option, adjusted for any changes to future volatility based on publicly available information.

(g) Shares Issued as Remuneration for Director's Services

No shares were issued to Directors during the current period.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

25. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments

(i) Leasing commitments

Operating lease commitments – Group as lessee

The Group leases various premises under non-cancellable operating leases expiring between 1 to 3 years. All leases have annual CPI escalation. The above commitments do not include any commitments from any renewal options on leases. Lease terms usually run for 3 years with a 3 year renewal option. Lease conditions do not impose any restrictions on the ability of Hyro Limited and its subsidiaries from borrowing further funds or paying dividends.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Within one year	1,366	1,714	–	–
After one year but not more than five years	4,859	6,424	–	–
After more than five years	3,719	5,118	–	–
Total minimum lease payments	9,944	13,256	–	–
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating lease	–	–	–	–

(ii) Hire purchase commitments

Future minimum payments under the hire purchase agreement together with interest are as follows:

	Consolidated		Parent	
	Minimum lease payments $'000	Present value of lease payments $'000	Minimum lease payments $'000	Present value of lease payments $'000
2009				
Within one year	610	610	–	–
After one year but not more than five years	928	928	–	–
Total minimum payments	1,538	1,538	–	–
Less amounts representing finance charges	(187)	(187)	–	–
Present value of minimum lease payments	1,351	1,351	–	–
2008				
Within one year	623	623	–	–
After one year but not more than five years	1,510	1,510	–	–
Total minimum payments	2,133	2,133	–	–
Less amounts representing finance charges	(256)	(256)	–	–
Present value of minimum lease payments	1,877	1,877	–	–

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

25. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Contingent liabilities

There are uncertainties relating to the amount and or timing of each of outflows in each of the categories disclosed above as their crystallisation is dependent upon contingent events of an uncertain nature.

There is no possibility of reimbursement for any of the contingent liabilities in the categories disclosed should they crystallise.

Details of the nature of the contingent liabilities are as follows:

Memorandum of Understanding Regarding a Potential Merger

On June 2004, Hyro Consulting (Thailand) Limited entered into a non-legally binding Memorandum of Understanding ('MOU') with RingZero Networks (Thailand) Co. Ltd. ("RZ Net") with the objective of exploring a potential merger of the two firms. On September, 2004, the companies jointly decided to start the effect of merger in the two firms. After due diligence, it became obvious to the Company and RZNet that it was not possible to reach agreement on key issues and, consequently, the transaction was not ratified by the related party's board and shareholders. The Company decided to notify RZNet of this decision not to continue negotiations and requested RZNet to operate independently of the Company in April, 2005.

In April, 2005, RZNet filed a civil case against the Company, and related parties regarding breach of the MOU and punitive damages for the sum of Baht 300 million ($A12.3m). On 29th December 2005, the Civil Court rendered judgement to dismiss the plaintiff's complaint. The plaintiff is entitled to submit its appeal to the Court of Appeal and there has been no change in respect to the legal case over the last year and the situation remains unchanged at reporting date.

Given the length of time that has expired since the Civil Court decision and the lack of further action in this matter, the Directors consider that the chance of this amount needing to be paid as very low.

Former Employees

Disputes relating to final payments for bonuses, commission or terminations pay to employees who have left the company total $609,789, including $370,000 relating to the former CEO. The former CEO's case is currently before the courts and is subject to counter claim.

The Directors believe that the correct amounts have been paid to the former employees but the amount of the eventual payments are subject to court or others judgement such that a precise estimate of the likelihood of payment or exact amount cannot be reliably estimated.

Rental Guarantees for Company in Liquidation

The Company has given a rental guarantee in relation to the lease of the Auckland premises at 92 Albert Street of its New Zealand subsidiary which is now in liquidation. The Directors estimate, based upon the likelihood of the property being re-let, the current market rental prices as compared with the rental guaranteed amount, and the remaining period of the lease, for the property to be re-let, that a contingent liability of $469,948 exists. The difference between this contingent liability amount and the total liability of $693,616 of $223,668 has been taken up as a liability in the statement of financial position.

As the vacancy period and residual amount of the rental guarantee is unknown, this liability cannot not be reliably estimated.

Discontinued operations

During the year the company appointed liquidators to the subsidiaries in New Zealand, Hong Kong and China to realise the assets and identify all liabilities. The New Zealand subsidiary has now been liquidated and the China/Hong Kong liquidations should be completed shortly. While the board and management are confident that all material liabilities have been recognised in the consolidated accounts of the group, there is a risk that some additional liabilities may emerge in the process of calling a creditors meeting and verifying claims rendered. Any potential liabilities which may arise will, in the opinion of the board, not be material to the results of the group

Professional Services Provider

The Company is currently in dispute with a professional services provider over the level of fees charged in relation to the production of the 2007 company annual report. The matter is due to be heard by the courts in May 2010. The level of exposure to the group is in the vicinity of $150,000 which has been accrued in the company accounts as at 31 December 2009.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

26. AUDITORS' REMUNERATION

The auditor of Hyro Limited is BDO Audit (NSW-VIC) Pty Ltd.

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Assurance related				
Amounts paid or payable for an audit or review of the financial report for the entity or any entity in the group:				
to BDO Audit (NSW-VIC) Pty Ltd	283,528	–	–	–
to BDO Audit (NSW-VIC) Pty Ltd – 2008 audit	–	321,410	–	–
	283,528	321,410	–	–
Other non-audit services				–
to BDO Audit (NSW-VIC) Pty Ltd –Tax compliance services	–	–	–	–
to BDO Audit (NSW-VIC) Pty Ltd – Due diligence services	–	–	–	–
	283,528	321,410	–	–
Amounts received or due and receivable by non BDO Audit (NSW-VIC) Pty Ltd audit firms for:				
Preparation of the financial report, accounting support and company secretarial services, valuation services and due diligence	112,470	388,000	–	–
	112,470	388,000	–	–

27. RELATED PARTY DISCLOSURES

(a) Subsidiaries

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

Name	Country of incorporation	% Equity Interest	
		2009 %	2008 %
Hyro Australia Pty Limited	Australia	100	100
Hyro Technologies Pty Limited	Australia	100	100
Hyro Communications Pty Limited	Australia	100	100
Brainwaave Interactive Pty Limited	Australia	100	100
Hyro Services Pty Limited	Australia	100	100
Hyro Solutions Pty Limited	Australia	80	80
Fluoro Pty Limited	Australia	100	100
One Planet Solutions Pty Limited	Australia	100	100
Hyro NZ Limited (Liquidated)	New Zealand	–	100
Australian Company Number 115349721 Pty Ltd (i)	Australia	100	100
Hyro Solutions Australia Pty Ltd (ii)	Australia	100	100
Australian Company Number 090853115 Pty Ltd (iii)	Australia	100	100
Getronics (HK) Limited (in liquidation)	Hong Kong	100	100
Hyro Asia Pte Limited (iv)	Singapore	100	100
Hyro Asia Limited (v)	Thailand	100	100
Hyro (Hong Kong) Limited (discontinued)	Hong Kong	100	100
Beijing Ben Mei Advertising Company Limited (discontinued)	China	100	100
Hyro Singapore Pte Limited	Singapore	100	100
Kallidos China Limited	Hong Kong	30	–
Kallidos Pte Limited	Singapore	30	–

(i) Formerly Synergy Software Holdings Limited
(ii) Formerly Synergy Plus Pty Ltd
(iii) Formerly Synergy People Pty Ltd
(iv) Formerly Hyro Asia Holdings Pte Limited
(v) Formerly Hyro Consulting (Thailand) Limited

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

27. RELATED PARTY DISCLOSURES (continued)

(b) Ultimate parent

Hyro Limited is the ultimate parent entity of the Group.

(c) Key management personnel

Remuneration disclosures for Key Management Personnel who may be considered Related Parties are provided in note 28 with further details provided in the Remuneration Report (Audited) section of the Directors Report from page 17.

(d) Transactions with related parties

The following table provides the total amount of management fees paid/received, to/from related parties for the relevant financial year ended 31 December:

Name		Management fees paid by $	Management fees paid to $
Consolidated			
Parent			
Hyro Australia Pty Limited	2009	–	1,696,773
Hyro Solutions Pty Limited	2009	83,158	–
Synergy Software Holdings Pty Limited	2009	1,613,615	–
Hyro Services Pty Limited	2009	–	4,384,356
Hyro Australia Pty Limited	2009	2,796,097	–
Hyro Solutions Pty Limited	2009	44,855	–
Synergy Software Holdings Pty Limited	2009	1,543,403	–
Hyro Limited	2009	–	2,783,411
Hyro Australia Pty Limited	2009	2,050,690	–
Hyro Solutions Pty Limited	2009	36,831	–
Synergy Software Holdings Pty Limited	2009	695,891	–
Parent			
Hyro Services Pty Limited	2008	–	(5,604,076)
Hyro Australia Pty Limited	2008	(456,141)	–
Hyro Solutions Pty Limited	2008	(453,342)	–
Fluoro Pty Limited	2008	(2,699)	–
One Planet Solutions Pty Limited	2008	(618,120)	–
Synergy Software Holdings Pty Limited	2008	(3,126,748)	–
Hyro NZ Limited	2008	–	–
Hyro (Hong Kong) Limited	2008	(678,000)	–
Hyro Consulting (Thailand) Limited	2008	(269,027)	–

Outstanding Balances

The following balances are outstanding at reporting date in relation to transactions with related parties:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current receivables (sale of goods and services)				
Subsidiaries	–	–	458	–
	–	–	–	–
Current payables (purchase of goods and services)				
Key management personnel	–	–	–	–
Other related parties	–	–	–	–
	–	–	–	–

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

27. RELATED PARTY DISCLOSURES (continued)

Amounts receivable from/owing to related parties for sale and purchases of goods and services are unsecured and interest free and are included in the balances of trade and other receivables (refer note 10)and trade and other payables (refer note 17) respectively.

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Non-current receivables (loans to related parties)				
Subsidiaries	–	–	–	–
	–	–	–	–
Non-current payables (loans from related parties)				
Parent entity	–	–	–	–
	–	–	–	–

Loans receivable from related parties are unsecured and do not bear interest, which reflects the risk profile of the subsidiaries' underlying businesses.

Transactions with director related entities

	2009		2008	
Name	Purchase from related parties $	(Debtor)/ Creditor balance $	Purchase from related parties $	(Debtor)/ Creditor balance $
PDY Pty Limited – Professional Advice (Director – Robert Clarke)	(112,470)	6,732	(528,405)	81,785
Westan Australia Pty Limited – Purchases (Director – Victor Agtan)	(102,078)	–	(9,519)	–
New Telecom Australia Pty Limited – Purchases (Director – Bill Votsaris)	(722,014)	105,673	(679,228)	52,951
Paragon Systems Pty Limited – Purchases (Director – Bill Votsaris)	(129,390)	–	(712,459)	40,733
ComputerCORP – Purchases (Director – Bill Votsaris)	(2,352,369)	(2,409,464)	(45,483)	45,483

Mr Robert Clarke is a director in the accounting firm of PDY Pty Limited who have supplied company secretarial, accounting and consulting services to Hyro on normal commercial terms.

Mr Bill Votsaris had an interest of 100% in the Paragon Systems Pty Ltd, and 70% in Paragon Services Pty Ltd. This interest was disposed of in December 2008.

Mr Bill Votsaris is a shareholder and director of New Telecom. New Telecom won the business to supply the Australian entities the land line phone system and later mobile phones with data and email capability.

The business tender was overseen by a senior project manager who provided a comprehensive report with his recommendation for approval by a Synergy board member. Mr Votsaris was not involved in the process other than participate in providing the tender brief. This matter was disclosed to Hyro during the acquisition negotiations by Hyro to acquire Synergy, and was disclosed to the Hyro board meeting after the acquisition.

Since May 2007 Hyro has purchased telecommunication products and services from a number of vendors, and not New Telecom exclusively. These decisions were made by the appropriate people on a commercial basis.

Mr Bill Votsaris is a director of Synergy Plus Limited (formally ComputerCORP Limited). During the year, Hyro disposed of its hardware business to Synergy Plus Pty Limited. Please refer to note 16 for details of this transaction and the comments regarding Profit and Loss account line classifications.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

28. KEY MANAGEMENT PERSONNEL

Further information regarding Key Management Personnel and their compensation is provided in the Remuneration Report (Audited) section of the Directors Report from page 17.

(a) Details of Key Management Personnel

Directors

Bill Votsaris	Chief Executive Officer - Executive Director	
Robert Clarke	Non-executive Chairman	
Robert Bladier	Non-executive Director	(Resigned: 1st June 2009)
Selwyn Shapiro	Non-executive Director	
Victor Aghtan	Non-executive Director	(Appointed 4th June 2009)
David Nott	Non-executive Director	(Appointed 8th October 2009) (Resigned 20th November 2009)

Executives

Terence Cameron	Finance & Administration Officer	
Paul M. Southwick	Chief Financial Officer	(Resigned 9th April 2009)
Richard Lord	Chief Marketing Officer	(Resigned 8th May 2009)
Michael Hodder	Director, Partner Alliances	
Bridee Clifton	Director, Human Resources	(Resigned 9th October 2009)
Chris Kokkas	Director, Technology	
Harry Pouliassis	Director, Client Delivery	
Stan Levine	Director, Identity Management	
John Wilks	Corporate Lawyer	(Appointed 30th March 2009) (Removed 19th February 2010)
Derreck Massuger	Chief Operating Officer	
Thomas Weddin	Director, Northern Region Sales	
John Demelis	Director, Southern Region Sales	(Appointed 30th November 2009)
Mac Walker	Director, Digital Services	

(b) Compensation of Key Management Personnel

	2009 $	2008 $
Short-term employee benefits	2,559,327	2,233,341
Post-employment benefits	138,096	103,099
Other long-term benefits	–	21,505
Termination benefits	169,881	378,886
Share-based payment	57,484	179,335
	2,924,788	2,916,166

(c) Remuneration of Key Management Personnel for the year ended 31 December 2009 (Consolidated)

Remuneration of Key Management Personnel and Directors (audited) is disclosed in the Directors Report on page 17 of this report.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

28. KEY MANAGEMENT PERSONNEL (continued)

(d) Equity instruments

Share options issued during the period to Directors and Key Management Personnel by Hyro Limited.

31 December 2009	Options issued	Fair value at grant date	Expensed in the period	Remaining fair value	Remuneration consisting of options
Bill Votsaris[(a)]	10,702,576	$99,973	$57,484	$42,489	8.81%
	10,702,576	$99,973	$57,484	$42,489	

(a) Issue date 30 June 2009, vesting when VWAP exceeds $0.10 for one month, exercise price $0.01, unvested options expire on cessation of employment.

31 December 2008	Options issued	Fair value at grant date	Expensed in the period	Remaining fair value	Remuneration consisting of options
Terence Cameron[(b)]	107,000	$3,808	$3,808	–	2.3%
Bridee Clifton[(b)]	107,000	$3,808	$3,808	–	2.9%
Chris Kokkas[(b)]	107,000	$3,808	$3,808	–	2.1%
Richard Lord[(b)]	107,000	$3,808	$3,808	–	1.4%
Harry Pouliassis[(b)]	107,000	$3,808	$3,808	–	1.9%
	535,000	$19,040	$19,040	–	

(b) Issue date 28 February 2008, vesting date 31 December 2008, exercise price $0.10, expiry date 31 December 2013.

Options and rights holdings

Details of options and rights held directly, indirectly or beneficially by Directors and Key Management Personnel and their parties are as follows:

31 December 2009	Balance at 1 Jan 2009	Granted as compensation	Grants terminated	Options Exercised	Options lapsed	Balance at 31 Dec 2009	Total vested and exercisable at 31 Dec 2009
Bill Votsaris	–	10,702,576	–	–	–	10,702,576	–
Terence Cameron	207,000	–	–	–	–	207,000	207,000
Michael Hodder	95,000	–	–	–	–	95,000	95,000
Chris Kokkas	147,000	–	–	–	–	147,000	147,000
Harry Pouliassis	107,000	–	–	–	–	107,000	107,000
	556,000	10,702,576	–	–	–	11,258,576	556,000

All options are vested and exercisable at 31 December 2009, with the exception of those granted to Bill Votsaris during the year.

31 December 2008	Balance at 1 Jan 2008	Granted as compensation	Grants terminated	Options Exercised	Options lapsed	Balance at 31 Dec 2008	Total vested and exercisable at 31 Dec 2008
Terence Cameron	100,000	107,000	–	–	–	207,000	207,000
Richard Lord	–	107,000	–	–	–	107,000	107,000
Michael Hodder	95,000	–	–	–	–	95,000	95,000
Bridee Clifton	–	107,000	–	–	–	107,000	107,000
Chris Kokkas	40,000	107,000	–	–	–	147,000	147,000
Harry Pouliassis	–	107,000	–	–	–	107,000	107,000
Nathan Brumby	400,000	–	400,000	–	–	–	–
Megan Hales	4,000,000	–	2,000,000	–	–	2,000,000	2,000,000
	4,635,000	535,000	2,400,000	–	–	2,770,000	2,770,000

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

28 KEY MANAGEMENT PERSONNEL (continued)

Shares issued on the exercise of options

The following ordinary shares of Hyro Limited were issued during the year ended 31 December 2009 on the exercise of options granted under the Hyro EPOP. No further shares have been issued as a result of the exercise of options, since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares $	Number of shares issued
13 September 2005	$0.01	50,000
		50,000

Equity instruments issued

No share issues where made to any Director, Executive Director or Key Management Personnel during the year.

Shareholdings

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

31 December 2009	Balance at 1 Jan 2009	Granted as compensation	Received on exercise of options or rights	Other changes	Balance at 31 Dec 2009	Balance held nominally
Bill Votsaris	2,412,018	–	–	–	2,412,018	2,412,018
Robert Clarke	2,220,033	–	–	1,650,000	3,870,033	220,033
Selwyn Shapiro	440,000	–	–	–	440,000	–
Victor Aghtan	39,287,648	–	–	–	39,287,648	35,287,648
Terence Cameron	716,697	–	–	(716,697)	–	–
Michael Hodder	–	–	–	–	–	–
Chris Kokkas	36,181	–	–	304,537	340,718	304,537
Harry Pouliassis	1,410,437	–	–	–	1,410,437	1,410,437
Stan Levine	–	–	–	–	–	–
Derreck Massuger	–	–	–	–	–	–
John Wilks	–	–	–	400,000	400,000	–
Thomas Weddin	–	–	–	–	–	–
John Demelis	–	–	–	757,434	757,434	250,000
Mac Walker	–	–	–	–	–	–
	46,523,014	–	–	2,395,274	48,918,288	39,884,673

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

28 KEY MANAGEMENT PERSONNEL (continued)

31 December 2008	Balance at 1 Jan 2008	Granted as compensation	Received on exercise of options or rights	Other changes	Balance at 31 Dec 2008	Balance held nominally
Bill Votsaris	40,967,860	–	–	(38,555,842)	2,412,018	2,412,018
Robert Clarke	475,479	–	–	1,744,554	2,220,033	220,033
Robert Bladier	282,463	–	–	–	282,463	282,463
Selwyn Shapiro	120,000	–	–	320,000	440,000	–
Victor Aghtan	35,143,824	4,000,000	–	143,824	39,287,648	35,287,648
Stephen Porges	5,006,270	–	–	–	5,006,270	5,006,270
Ted Edwards	257,819	–	–	–	257,819	257,819
Neil Docherty	–	–	–	–	–	–
Mark Forsyth	–	–	–	465,000	465,000	–
Richard Lord	41,273,723	–	–	1,500,000	42,773,723	42,772,723
Stan Levine	–	–	–	–	–	–
Terence Cameron	716.697	–	–	–	716,697	716.697
Michael Hodder	–	–	–	–	–	–
Chris Kokkas	36,181	–	–	–	36,181	–
Bridee Clifton	208,575	–	–	44,092	252,667	49,092
Joe Calavassy	65,186,767	–	–	(1,790,062)	63,396,705	63,396,705
Len Turner	10,731,168	–	–	–	10,731,168	10,731,168
Harry Pouliassis	1,410,437	–	–	–	1,410,437	1,410,437
Paul Southwick	–	–	–	–	–	–
Megan Hales	–	–	–	–	–	–
Nathan Brumby	–	–	–	–	–	–
	201,817,263	4,000,000	–	(36,128,434)	169,688,829	162,543,073

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

29 DISCONTINUED OPERATIONS

(a) Hyro Greater China

As disclosed in the 2008 Annual Report and the 2009 Half Year Report, in December 2008 the Directors of Hyro Limited executed a transaction to discontinue the operations of Hyro Greater China (being the operations China and Hong Kong). On 31 March 2009 liquidators were appointed to Getronics (HK) Limited (trading as Hyro Hong Kong) and Beijing Men Mei Advertising Company Limited (trading as Hyro China). The details of this transaction are described in the Directors Report on page 134.

As at 31 March 2009 both entities ceased to be controlled by Hyro Limited and became subject to the control of the appointed liquidators. As a result, Hyro has treated the loss of control as a disposal of a subsidiary in accordance with AASB 127.

Financial information relating to the Hyro Greater China operations from 1 January to 31 March 2009, and for the year ended 31 December 2009 is set out below: Further information is set out in Note 5 Operating Segments.

	2009 $	2008 $
Revenue	–	3,144
Other income	–	180
Expenses	–	(5,979)
Loss before tax from discontinued operations	–	(2,655)
Tax expense	–	–
		(2,655)
Gain on disposal of Hyro Greater China Division	1,879	–
Loss on discontinuation of Hyro Greater China Division	–	(2,655)
Tax expense	–	–
Profit/(Loss) on Hyro Greater China Division after tax	1,879	(2,655)
Profit/(Loss) for the year from discontinued operations	1,879	(2,655)

Other income relates to the sale of ShoPOS software in Hong Kong. There were no costs in relation to this transaction.

	2009 $	2008 $
Net cash inflow (outflow) from operating activities	–	(463)
Net cash inflow (outflow) from investing activities	–	–
Net cash inflow (outflow) from financing activities	–	–
Net cash increase (decrease) generated by discontinued operations	–	(463)

The assets and liabilities of the discontinued Hyro Greater China division as at 31 December 2009 and 31 December 2008 are as follows:

	2009 $	2008 $
Cash	–	121
Property, Plant and Equipment	–	–
Other intangible assets	–	–
Inventory	–	–
Trade Receivables	–	–
Total Assets	–	121
Trade Creditors	–	2,000
Provision for employee benefits	–	–
Total Liabilities	–	2,000
Net Assets	–	(1,879)

There were no changes in the assets and liabilities between 31 December 2008 and the disposal date of 31 March 2009.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

29 DISCONTINUED OPERATIONS (continued)

(a) Hyro Greater China (continued)

The loss on discontinuation of the Hyro Greater China Division has been calculated as follows:

	2009 $	2008 $
Trading loss	–	(1,628)
Write off of carrying amount of net (assets) / liabilities	1,879	(1,027)
Gain/(Loss) on discontinuation of Hyro Greater China Division before income tax	1,879	(2,655)
Income tax expense	–	–
Gain/(Loss) on discontinuation of Hyro Greater China Division after income tax	1,879	(2,655)

As the Hyro Greater China business has been placed into receivership no further income or consideration is expected from the discontinued operations.

(b) Hyro New Zealand

As disclosed in the 2008 Annual Report and the 2009 Half Year Report, Hyro (NZ) Limited was closed and liquidators appointed on 13 February 2009. The details of this transaction are described in the Directors Report on page 134.

As at 13 February 2009 Hyro (NZ) Limited ceased to be controlled by Hyro Limited and became subject to the control of the appointed liquidators, therefore Hyro have treated the loss of control as a disposal of a subsidiary in accordance with AASB 127.

Financial information relating to the Hyro New Zealand operations from 1 January to 13 February 2009 and for the year ended 31 December 2008 is set out below:

	2009 $	2008 $
Revenue	173	2,638
Other income	–	–
Expenses	(109)	(3,124)
Loss before tax from discontinued operations	64	(486)
Tax expense	–	–
Gain on disposal of Hyro New Zealand	1,371	–
Tax expense	–	–
Gain on Hyro New Zealand after tax	1,371	–
Profit/(Loss) for the year from discontinued operations	1,435	(486)

	2009 $	2008 $
Net cash inflow (outflow) from operating activities	15	(118)
Net cash inflow (outflow) from investing activities	–	–
Net cash inflow (outflow) from financing activities	–	–
Net cash increase (decrease) generated by discontinued operations	15	(118)

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

29 DISCONTINUING OPERATIONS (continued)

(b) Hyro New Zealand (continued)

The assets and liabilities of the discontinued Hyro New Zealand as at 13 February 2009 (disposal date) and 31 December 2008 are as follows:

	13 Feb 2009 $	31 Dec 2008 $
Cash	31	16
Property, Plant and Equipment	11	11
Other intangible assets	–	–
Inventory	–	–
Trade Receivables	58	134
Total Assets	100	161
Payables & Other Creditors	1,471	1,657
Total Liabilities	1,471	1,657
Net Assets	(1,371)	(1,496)

The loss on discontinuation of the Hyro New Zealand operations has been calculated as follows:

	2009 $	2008 $
Trading loss	–	(271)
Write off of carrying amount of net (assets)/liabilities	1,371	(215)
Gain on discontinuation of Hyro New Zealand before income tax	1,371	(486)
Income tax expense	–	–
Profit/(Loss) on discontinuation of Hyro New Zealand after income tax	1,371	(486)

As the Hyro New Zealand business has now been liquidated no further income or consideration is expected from the discontinued operations.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

30. EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

There have been two events which occurred after the balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

ATO agreement

Amounts owing to the Australian Taxation Office (ATO) are disclosed in the statutory accounts as part of Current Liabilities. It is relevant to note that the Group has an ongoing payment plan agreement with the ATO. The agreement, most recently confirmed in writing by the ATO after balance date in February 2010 provides for minimum repayments of overdue amounts of $1,200,000 in the twelve months to 31 December 2010.

Share Issue to Executives

In March 2010, Hyro allotted 19,378,000 shares to key executives as a performance incentive and to align employee interests with the revenue and profit generating goals of the company.

This allotment equated to 3% of the total shares on issue at the time.

As announced to the ASX, the shares were issued at zero cost, had no trading restrictions attached to them and were issued on terms equal with other fully paid ordinary shares already quoted.

Notes to and forming part of the Financial Statements

For the year ended 31 December 2009

31. SHAREHOLDER INFORMATION

(a) Distribution of shareholders

The distribution of shareholders as at 26 March 2010 was as follows:

Size of holding	Number of holders	Ordinary Shares
1 – 1,000	195	73,429
1,001 – 5,000	207	638,953
5,001 – 10,000	186	1,616,516
10,0001 – 100,000	846	35,319,651
100,001 and over	460	623,908,248
Total number of holder	**1,894**	**661,556,797**

(b) Twenty largest shareholders

The names of the 20 largest shareholders as at 26 March 2010 were:

Shareholder	Number of shares held	% of total capital held
NATIONAL NOMINEES LIMITED	107,034,080	16.18%
BOND STREET CUSTODIANS LIMITED (MACQUARIE FUNDS MANAGEMENT)	44,647,690	6.75%
LORFAM PTY LTD <RICHARD LORD FAMILY TRUST>	43,086,667	6.51%
WESTAN PTY LTD	35,287,648	5.33%
WOODDUCK PTY LTD	17,406,257	2.63%
IMPACT NOMINEES PTY LTD (SYDNEY INVESTMENT ACCOUNT)	17,210,000	2.60%
FORTIS CLEARING NOMINEES PTY LTD (SETTLEMENT A/C)	16,512,982	2.50%
DR JOHN LARKING (SUPERANNUATION FUND A/C)	14,153,508	2.14%
MR LEONARD TURNER	10,731,168	1.62%
DKR DIRECT PTY LTD (THE DOMINIC ROCHE FAMILY A/C)	9,935,859	1.50%
RATIONAL CAPITAL MANAGEMENT PTY LTD	8,626,552	1.30%
LIBIDO ADMINISTRATORS PTY LTD	7,000,000	1.06%
HANHILL CAPITAL PTY LTD	6,000,000	0.91%
COLBERN FIDUCIARY NOMINEES PTY LTD	5,794,204	0.88%
YATES INVESTMENTS AUSTRALIA PTY LTD <YATES EXECUTIVE S/FUND A/C>	5,635,233	0.85%
MS LEANNE JANE WESTON	5,050,000	0.76%
CABONNE PARTNERS PTY LTD <SPORGES SUPER FUND A/C>	5,006,270	0.76%
JAKAPE PTY LTD <K E JARVIS FAMILY A/C>	4,896,458	0.74%
FREDERICK LAYLAND & MICHAEL LAYLAND <LAYLAND FAMILTY S/FUND A/C>	4,500,000	0.68%
PV MARKETING PTY LTD	4,485,250	0.68%
Total for top 20	**372,999,826**	**56.38%**
Total number of ordinary shares on issue	**661,556,797**	

(c) Substantial shareholders

Substantial shareholders of the company as at 26 March 2010 are set out below:

Holder	Number of Ordinary Shares
LEHMAN BROTHERS INTERNATIONAL (EUROPE) (in administration)	107,000,000
BOND STREET CUSTODIANS LIMITED (MACQUARIE FUNDS MANAGEMENT)	44,647,690
LORFAM PTY LTD <RICHARD LORD FAMILY TRUST>	43,086,667
WESTAN PTY LTD	35,287,648

Voting rights

Ordinary shares

On a show of hands every member of Hyro Limited present in person or by proxy shall have one vote, and upon a poll each share carry one vote, without restriction.

Directors' Declaration

In accordance with a resolution of the Directors of Hyro Limited, I state that:

In the opinion of the Directors:

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

  (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards and Corporations Regulations 2001; and

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

The Directors have been given the declarations by the CEO and CFO required by section 295A of the Corporations Act 2001.

On behalf of the Board

Robert Clarke

Chairman

Sydney, 31 March 2010

Bill Votsaris

Director

Melbourne, 31 March 2010

Tel: +61 2 9286 5555
Fax: +61 2 9286 5599
www.bdo.com.au

Level 19, 2 Market St
Sydney NSW 2000
GPO Box 2551 Sydney NSW 2001
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Hyro Limited

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Hyro Limited for the year ended 31 December 2009 included on Hyro Limited's web site. The company's directors are responsible for the integrity of Hyro Limited's web site. We have not been engaged to report on the integrity of Hyro Limited's web site. The auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Report on the Financial Report

We have audited the accompanying financial report of Hyro Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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 opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

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

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 23 of the directors' report for the year ended 31 December 2009. 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 Hyro Limited for the year ended 31 December 2009, complies with section 300A of the *Corporations Act 2001*.

Emphasis of matter

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As described in Note 2(b), the consolidated entity has deferred payments to certain creditors including the Australian Taxation Office. The amount owing to the Australian Taxation Office is $9,598,000, on which a payment plan has been entered into. Under the terms of the payment plan agreement with the Australian Taxation Office, Hyro is required to meet certain terms and conditions in order to ensure that previously accruing interest and penalties of $1,782,492 remains waived, and the payments are deferred.

At 31 December 2009, after the extinguishment of the convertible note of $19,973,822, the consolidated entity's current liabilities exceeded current assets by $7,901,000, and reported a net asset deficiency of $5,266,000.

For the year ended 31 December 2009, the consolidated entity has reported a profit before income tax and discontinued operations of $12,038,000. After excluding significant non recurring gains and losses, including the gain on the extinguishment of the convertible note of $18,652,000, the loss on sale of Synergy Plus of $919,000, and write off of the intangible assets of $7,339,000, the adjusted profit before income tax and discontinued operations is $1,644,000. The consolidated entity has reported a net cash inflow from operating activities for the year ended 31 December 2009 of $333,000.

The continuation of the positive operating cash flow is dependent on the achievement of the group's operational budgets including the successful completion of the initiatives to provide improved employee utilisation (and therefore achievement of improved gross margins), operational efficiencies and further costs savings in the Hyro operations following the sale of the Synergy business.

Accordingly, should these budgets not be achieved, there is uncertainty whether Hyro Limited and the group will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report.

BDO

BDO Audit (NSW-VIC) Pty Limited

N E Sinclair

N E Sinclair
Director

Sydney, 31 March, 2010