

MDS Financial Group Limited

Annual Report 2011





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MDS Financial Group Limited

ABN 90 091 744 884

With a dedicated institutional dealer team and wholesale broking business, backed up by market leading technology and recognised brands streamed to broker terminals (Trader Dealer, D2MX, Bourse Data, and Finance News Network) MDS Financial Group is the first choice in trading solutions to the intermediary and institutional markets.

The expansion of MDS Financial Group into corporate advisory, equity capital markets and institutional dealing demonstrates the corporate vision of MDS Financial Group as a boutique global investment house known for the quality of its advice, strength of its relationships and depth of expertise across financial markets.

Guided by strong principles of ethical investing, and providing advice with honesty and integrity, MDS Financial Group has committed to ongoing investment in its team to ensure astute counsel, an entrepreneurial attitude and professional integrity.

Connecting Australian companies with global markets and opportunities, MDS Financial Group has proven multi-disciplinary skills, a focus on client outcomes and product innovation. The foundations are laid for strong growth through delivery of superior client service, market agility for future acquisitions and leveraging of strategic international partnerships.

Starting life as MDSnews in 1995, the company has its genesis in the development of market-leading financial research, charting and analysis software and quote vending for the financial markets. The successful merger in 2006 of three companies, MDSnews Pty Ltd, Bourse Data Pty Ltd and The Cube Financial Group Pty Ltd, followed by the subsequent acquisitions of Trader Dealer Online Pty Ltd and D2MX Pty Ltd, began the journey to create the MDS Financial Group of today - an emerging leader in global investment, corporate advisory and dealing services.





Portfolio of Companies



MDS Financial Services Pty Ltd holds the Australian Financial Services License for the whole group

Includes:

- Private Client Services
- Corporate Advisory Services



Trader Dealer Online Pty Ltd is an online trading company, providing execution-only services for trading ASX equities, warrants, options and CFDs.

- It also sells the Market Analyser software and trading platform



D2MX Pty Ltd is a full ASX market participant providing direct to market execution by institutional and wholesale broker dealer groups. Includes:

- D2MX Institutional Equities



Bourse Data Pty Ltd is a technology company that develops software, supports and sells subscriptions to The Bourse and commercial data feeds

Includes:

- The Bourse
- Bourse Commercial
- End of Day Data
- MarketMood.com.au



Finance TV Pty Ltd is one of the largest providers of online finance and business video news in Australia through the Finance News Network. Streaming on broker terminals, it is also available as content for websites and company newsletters.

“ We have attracted significant interest not only in Australia but also from new strategic alliances, potential investors and stakeholders in financial markets in Europe, Asia and North America, which have a momentum now that the company intends to exploit to its fullest potential ”

Sean Rothsey, Chairman



Chairmans Report

Dear Shareholders

The global financial markets continue to issue challenges to investors and traders alike. MDS Financial Group has not been spared these hurdles and has experienced a softening of growth in our core software and data business over the past 12 months.

The Board however has been actively addressing these challenges, undertaking a realignment of the operating business and using our own niche markets to take advantage of the opportunities created by the volatility and declining market confidence.

I would like to take this opportunity to recap on a number of strategic achievements completed throughout the year by your company. The Board, in conjunction with senior management, has positioned MDS Financial Group for ongoing growth and security in 2012 and beyond.

MDS has accelerated its transition from supplier of software and market data services to a full ASX market participant with growth in broking services and the introduction of a corporate advisory services and equity capital markets division.

A key strategic achievement has been the acquisition of stock broker D2MX Pty Ltd. With the integration of D2MX now complete MDS Financial has been able to expand its involvement in Australian financial markets as a full ASX market participant offering institutional equity sales, wholesale broking, retail and corporate broking services.

The D2MX entity operates independently to the retail investor-focused offering of Trader Dealer by delivering competitive wholesale broking services to third party brokers and institutional services in a market dominated by Australian financial services giants Commonwealth Bank and ANZ Bank via E*TRADE. Business growth has already been achieved with the launch of an institutional trading service; D2MX Institutional Equities.

A further milestone in the successful execution of the D2MX strategy has been the purchase of key strategic assets from the administrators of MINC Financial Services in April 2011. These assets have now also been fully integrated into both D2MX and Trader Dealer, resulting in significant growth post integration and we anticipate above average ROIs for this investment going forward.

The aggregation of the Group's share and options trading, further supported by

organic growth, places MDS Financial on par with other notable brokers such as Austock, HTM Wilson and Shaw Stockbroking with monthly trading turnover now over A\$550 million per month. The Board is cognisant of uncertainties and vagaries of global financial markets at this time; however the successful culmination of four years of strategy against many odds provides some optimism for the future growth in broking and trading.

The turbulence experienced in the market has adversely affected the software and data business, resulting in the company making the decision to impair the business by \$1 million through the write down of goodwill relating to the acquisition of Bourse Data in 2006. Ongoing strategic work is being undertaken in the software and data divisions to manage both the aging software assets and declining revenues in this volatile market. However we envisage any further declines to be substantially offset through growth from the trading businesses of D2MX and Trader Dealer and through our continued expansion of our corporate advisory services.

These strategies for the software and data business have been further refined and are at an advanced level of negotiation. If successful, it will both position those businesses for the future and also ensure a return on recent software development costs.

In keeping with our strategic growth plans and commitment to good governance we have appointed to the Board Ms Jamie Khoo, who brings an abundance of financial management experience in both public and private companies gained throughout the Asian markets. Jamie joined the Board as an independent non-executive director and also heads the Audit Committee.

Additionally, Mr Wayne Johnson returns to the Board as Executive Deputy Chairman. Wayne is charged with providing strategic direction to the Group and management team, while also further developing our corporate advisory and equity capital markets division.

Since his appointment we have already seen significant growth with MDS successfully completing corporate and capital raising services for the reverse listing of Nuiminco Limited.

The division has also completed the IPO of Allmine Limited amid other capital raising and with an exciting and solid deal flow pipeline for the 2012 year; the Group is looking ahead to a trend of sustained growth in this division.



In that regard, MDS is also pleased to have been involved with the launch of the world's first Renminbi denominated and Australian dollar settled secured convertible offshore A\$500 million bond fund for Australian real estate. This exciting financial vehicle represents the future of cross country investment within the Australian and Chinese economies.

Through this strategic alliance MDS Financial Services and Agincourt are working jointly on a Hong Kong based Renminbi (RMB) secured convertible bond fund, intended to provide a unique opportunity for Chinese and foreign investors to invest in Australian real estate. Funds for UK, Chinese and US real estate are currently being modeled.

MDS is also to provide assistance and advisory services to AginCourt Capital as it develops those initiatives and looks to launch its Resources fund in the Australian market in 2012.

There is no doubt there are some challenging times ahead in the global market but I am proud to say that MDS Financial Group, with its Board and senior management, is set to not only survive these changing market conditions but to take advantage of them to build long term value for the organisation and its shareholders.

On behalf of the Board I take this opportunity to thank all shareholders, management and staff for their support and contribution to effecting these extraordinary changes in challenging times.

Kind Regards

Sean Rothsey



We are offering brokers a genuine alternative to the current duopoly of the big banks. When brokers call us, they will be dealing with people who have extensive broking experience.

Damian Isbister, CEO - Trading



Board of Directors

Sean Rothsey

Non-Executive Director, Chairman

Sean joined MDS Financial's Board of Directors in September 2007 and was elected Chairman in February 2008. Sean has been involved in a broad range of industries over the past 25 years, establishing influential connections in shipping, transport, trading, financial markets, accounting, legal, retail and private banking, film entertainment and marketing. Sean is an exceptional mediator and negotiator and is currently director and chairman of a number of private and public listed companies. Since joining the Board Sean has led the Company through a period of substantial strategic transformation and has played a key role in developing the Group's international presence.

Wayne Johnson

Executive Director, Deputy Chairman

Wayne has extensive experience in corporate advisory and corporate financial projects leading to listings on the Australian, New Zealand and Toronto exchanges. Wayne's past experience also includes the development and sale of successful businesses in the mining industry, financial services, online broadcasting and telecommunications. He was founding partner and COO of Telegroup Australasia, Managing Director of E-cademy Holdings Limited and a founding director of the Cube Financial Group Pty Ltd. Wayne is the Non Executive Chairman of Smartpay Holdings Limited, listed on the New Zealand Stock Exchange and is the Non Executive Chairman of Cape Range Limited. Wayne joined the Board of MDS Financial Group as Executive Deputy Chairman in May 2011, with a mandate to expand the corporate advisory arm of the business and provide strategic management to the group.

Damian Isbister

Executive Director, Chief Executive Officer – Trading

Damian has been a Director of MDS Financial Group since November 2008, following his appointment as Chief Executive Officer in July 2008. In addition to his extensive trading and investment experience Damian has an in-depth knowledge of information technology issues, including web-based trading services, online media and marketing. Soon after joining MDS Financial Damian led the acquisition and integration of Trader Dealer Online into the company's core operations, forming the starting point of the company's strategic shift towards order execution. In recognition of the greater role broking would play in the company's future Damian was appointed CEO – Trading in 2010, and since then has successfully engineered the acquisition and integration of the D2MX and MINC business units, leading to substantial growth in the execution and broking side of the business.

Richard Symon

Executive Director, Chief Executive Officer – Software

Richard brings to MDS Financial Group over 25 years of experience in the financial services sector, and was CEO of National Stock Exchange of Australia for two years prior to joining MDS. He has served as executive director of the Securities and Derivatives Industry Association and of Prudential Bache Securities, and was CEO of Sharetrade Australian Stockbroking Ltd. A fellow of FINSIA, Richard is currently the chairman of Melbourne-based Growth Markets Organisation (GMO) and chairman of the charity Financial Services Foundation. Richard has been a Director of MDS Financial Group since November 2008.

Jamie Khoo

Non-Executive Director

Jamie has been a Director of MDS Financial Group since February 2011. Jamie brings over 20 years experience in accounting and corporate finance including project financing, capital raising, IPOs, investment evaluation, due diligence and structuring. She has held key finance and investment positions with companies as diverse as STT Communications Ltd, ABB Holdings Ltd, Ernst and Young and Baker Hughes Group in Singapore, Hong Kong and Beijing. Jamie is a former executive director of Singapore-listed Adventus Holdings Ltd and is currently an independent non-executive director of Refresh Group Limited.



Summary of Results

Operating Performance

Year ended 30 June	2011 \$'000	2010 \$'000
Revenue		
Subscriptions and data fees	4,026	4,746
Brokerage and commissions	1,690	1,306
Corporate fees	923	-
Other	810	45
	7,449	6,097
Expenses		
Data fees	2,125	1,935
Dealing and settlement	1,817	744
Employee benefits	2,122	2,105
Occupancy	349	389
Telecommunications	240	291
Marketing	220	142
General and administrative	617	511
Depreciation and impairment	1,157	93
Other	91	236
	8,738	6,446
Reported loss after tax	(1,289)	(349)

Cash Flow

Year ended 30 June	2011 \$'000	2010 \$'000
Cash flows from operations		
Customer receipts	6,306	6,837
Supplier and employee payments	(6,934)	(7,203)
Interest received	23	36
Interest paid	(4)	(7)
Operating cash flow	(609)	(337)
Investing cash flow	(542)	(956)
Financing cash flow	1,173	1,502
Total cash flow	22	209
Opening cash	870	661
Closing cash	892	870

Financial Position

As at 30 June	2011 \$'000	2010 \$'000
Total current assets	1,392	1,251
Total non-current assets	3,366	3,300
Total assets	4,758	4,551
Total current liabilities	1,818	1,548
Total non-current liabilities	18	12
Total liabilities	1,836	1,560
Net assets	2,992	2,991

The consolidated entity incurred a loss (after impairment of intangible assets) of \$1,288,793 for the year (2010: \$349,140).

Total revenue of \$7,448,877 represents a 22.1% increase on the previous years (2010: \$6,096,740). Whereas revenues from data subscriptions declined by 16.3% to \$3,864,505 (2010: \$4,615,721), broking revenues increased by 31.4% to \$1,945,519 (2010: \$1,481,019). Revenue attributed to corporate advisory activities was \$1,629,853 (2010: nil).

The Group has recognised a loss on impairment of its Goodwill in Bourse Data Pty Ltd of \$995,288. The underlying operating loss of the Group excluding this impairment was \$293,505.

Operating cash flow was negative for the year and higher than 2010 reflecting the decline in subscriptions revenue and costs associated with the acquisition of D2MX Pty Ltd, the assets of Minc Financial Services (administrator appointed) and the Group's unsuccessful bid for Lonsec Limited.

Cash outflows from investing activities of \$542,244 (2010: 955,835) include \$562,130 attributable to software development (2010: \$637,417).

The Group raised additional share capital (net of transaction costs) of \$1,213,542 during the year (2010: \$1,502,000) and paid out \$40,051 (2010: Nil) in relation shares bought back and cancelled.

The Group's net asset backing at 30 June 2011 remains, relatively unchanged from the previous year's position at \$2,992,087 (2010: 2,991,005).

Business Review

Broking

The Group faces a strategic imperative to manage the broking business against the background of ongoing turbulence in the global financial markets.

In recognition of the growth the broking business is playing in the future of the organisation, Damian Isbister's role was restructured during the year to enable him to focus exclusively on the broking segment as CEO – Trading.

Traditionally the Group has leveraged off its existing subscriber database to offer data and software clients direct execution and clearing via Trader Dealer, however in recognition of the decline in the subscription revenue business the future growth of the Group's broking operations has been underpinned by two important acquisitions during the first half of 2011.

On the 1st of April 2011 MDS Financial Group acquired the ASX participant D2MX Pty Ltd. The D2MX business now provides all wholesale and third party broking services for the Group, and with the launch of D2MX institutional equities, the Group now engages the high-value institutional trading market.

On the 19th of April 2011 MDS Financial Services acquired key strategic assets of MINC Financial Services Pty Ltd (Administrators Appointed). The MINC assets were directly integrated into Trader Dealer and D2MX. Additionally key MINC personnel were retained who now operate a private client advisory business under MDS Financial Services.

With these acquisitions and shift in strategy, MDS Financial now has the ability to offer broking and clearing services to three distinct target markets; institutional brokers, wholesale and third party broking businesses, and high net worth online traders.

Despite the continuation of uncertain trading conditions and market volatility, through these key acquisitions and a strategic focus on broking the Group has continued to attract new broking clients and increase broking revenues by more than 30% for the year.

Data Subscriptions

The Group has experienced a decline in revenues from data and software subscriptions revenue.

The software business faces a number of ongoing challenges:

1. An increasing number of retail investors losing confidence amid uncertain market conditions.
2. The aging assets of the Group's primary software offerings: The Bourse and Market Analyser.

In recognition of the challenges facing this segment of the Group's operations the Board appointed Richard Symon as CEO - Software with a specific brief to achieve a turnaround in the segment's performance.

In recent months there have been a number of marketing initiatives introduced to provide support for the company's software offerings. These included a presence at trade shows, the introduction of educational webinars and "boot-camps", as well as the introduction of a regular nightly market wrap in the Eureka Report and the provision of the Bolters and Falgers report in Traders Plus/Wealth Creator magazine to strengthen brand recognition.

Additionally a new end of day data product for MetaStock users was launched in March 2011 to replace a legacy service.

Market Analyser has continued to attract sales through our third party resellers and customer retention has also been a focus with the introduction of educational webinars.

Ongoing strategic work will be required within the software division to manage our aging software assets as the organisation continues to focus on growth in its trading assets.

Corporate Advisory

The Group's corporate advisory business, operated through its subsidiary MDS Financial Services Pty Ltd, has achieved success in its maiden year, in a difficult environment for capital raisings.

In December 2010 the Group announced that it had successfully raised \$10 million for the initial public offering of Allmine Group Limited (ASX: AZG)

In April 2011 former CEO and current Director Wayne Johnson commenced a strategic review of the Group's corporate advisory function, and subsequently rejoined the Board on the 20th of May 2011 as deputy chairman with a mandate to grow corporate

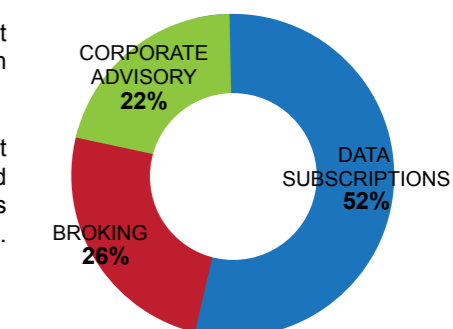
advisory services and provide strategic management support to the group.

Subsequent to the end of the reporting period, the Group has made several important announcements in relation to its Corporate Advisory business:

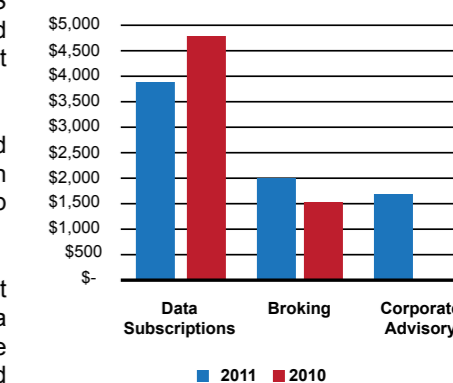
- strategic global alliances with The Conrad Group and Agincourt Capital;
- the launch of a Hong Kong based RMB secured convertible offshore bond fund for Australian real estate;
- the successful close of the \$12 million gold and copper capital raising for Niuminco Limited;

There are several further M&A and corporate listing mandates that the company has in negotiation to assist in the ongoing positive performance of the company.

Divisional Revenue Contribution



Changes in Revenue by Division





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Corporate Governance Statement

The Board of Directors ("the Board") of MDS Financial Group Limited ("the company") is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of the company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the company's compliance with the ASX Corporate Governance Council's Revised Principles and Recommendations.

Principles and Recommendations	Compliance	Comply
Principle 1 – Lay solid foundations for management and oversight		
1.1	<p>Establish the functions reserved to the Board and those delegated to manage and disclose those functions.</p> <p>The Board is responsible for the overall corporate governance of the company.</p> <p>The Board has adopted a Board charter that formalises its roles and responsibilities and defines the matters that are reserved for the Board and specific matters that are delegated to management.</p> <p>The Board has adopted a Delegations of Authority that sets limits of authority for senior executives.</p> <p>On appointment of a director, the company issues a letter of appointment setting out the terms and conditions of appointment to the Board.</p>	Complies.
1.2	<p>Disclose the process for evaluating the performance of senior executives.</p> <p>Senior executives prepare strategic objectives that are reviewed and signed off by the Board. These objectives must then be met by senior executives as part of their key performance targets. The chief executive officer (CEO) then reviews the performance of the senior executives against those objectives. The Board reviews the CEO's compliance against his and the company's objectives. These reviews occur annually or more frequently as required.</p>	Complies.
1.3	<p>Provide the information indicated in <i>Guide to reporting on Principle 1</i>.</p> <p>A Board charter has been disclosed on the Company's website and is summarised in this Corporate Governance Statement.</p>	Complies.
	<p>A performance evaluation process is included in the Board Charter, which has been disclosed on the company's website and is summarised in this Corporate Governance Statement.</p>	Complies.
	<p>The Board conducted a performance evaluation for senior executives in the financial year in accordance with the process above.</p>	Complies.

Corporate Governance Statement

Principles and Recommendations	Compliance	Comply
Principle 2 – Structure the Board to add value		
2.1 A majority of the Board should be independent directors	<p>The majority of the Board's directors are not independent as a majority of the Board are either a substantial shareholder or are executive directors of the company.</p> <p>Ms Jamie Gee Choo Khoo is an independent Non-Executive Director</p> <p>Mr Sean Peter Rothsey is a Non-Executive Director but not independent due to being a substantial shareholder.</p> <p>Mr Damian Wayne Isbister is an Executive Director.</p> <p>Mr Wayne Noel Johnson is an Executive Director.</p> <p>Mr Bruce Richard Sydney Symon is an Executive Director.</p>	Does not comply however the skills and experience of both the independent and non-independent directors allow the Board to act in the best interests of shareholders.
2.2 The chair should be an independent director.	Sean Rothsey is the Chairman and is a non-independent Non-Executive Director	Does not comply however the Chairman relinquished his executive duties on 1 February 2010.
2.3 The roles of the chair and chief executive officer should not be exercised by the same individual.	Sean Rothsey is the Chairman. Damian Isbister is Chief Executive Officer – Trading and Richard Symon is Chief Executive Officer – Software.	Complies.
2.4 The Board should establish a Nomination and Remuneration Committee.	<p>The Company has established separate Nomination and Remuneration Committees.</p> <p>The Board has undertaken a review of the mix of skills and experience on the Board in light of the company's principal activities and direction, and has considered diversity in succession planning. The Board considers the current mix of skills and experience of the members of the Board and its senior management is sufficient to meet the requirements of the company.</p> <p>The Board supports the nomination and re-election of the directors at the company's forthcoming Annual General Meeting.</p>	Complies.
2.5 Disclose the process for evaluating the performance of the Board, its committees and individual directors.	<p>The company conducts the process for evaluating the performance of the Board, its committees and individual directors as outlined in the Board Charter which is available on the company's website.</p> <p>The Board's induction program provides incoming directors with information that will enable them to carry out their duties in the best interests of the company. This includes supporting ongoing education of directors for the benefit of the company.</p>	Complies.

Corporate Governance Statement

Principles and Recommendations	Compliance	Comply
2.6 Provide the information indicated in the <i>Guide to reporting on Principle 2</i> .	This information has been disclosed (where applicable) in the directors' report attached to this Corporate Governance Statement.	Complies.
	<p>Jamie Khoo is an independent director of the company. A director is considered independent when she substantially satisfies the test for independence as set out in the ASX Corporate Governance Recommendations.</p> <p>Members of the Board are able to take independent professional advice at the expense of the company.</p> <p>Sean Rothsey, Non-Executive Chairman was appointed to the Board in September 2007.</p> <p>Damian Isbister, Executive Director and Chief Executive Officer – Trading was appointed to the Board in November 2008.</p> <p>Richard Symon, Executive Director and Chief Executive Officer – Software was appointed to the Board in November 2008.</p> <p>Jamie Khoo, Independent Non-Executive Director was appointed to the Board on 28 February 2011.</p> <p>Wayne Johnson, Executive Deputy Chairman was appointed to the Board on 20 May 2011.</p> <p>The company has established separate Nominations and Remuneration Committees.</p> <p>The Board has undertaken a review of the mix of skills and experience on the Board in light of the company's principal activities and direction, and has considered diversity in succession planning. The Board considers the current mix of skills and experience of members of the Board and its senior management is sufficient to meet the requirements of the company.</p> <p>In accordance with the information suggested in Guide to Reporting on Principle 2, the company has disclosed full details of its directors in the director's report attached to this Corporate Governance Statement. Other disclosure material on the Structure of the Board has been made available on the company's website.</p>	The Nomination and Remuneration Committees operate under respective separate charters. In addition, the Board does not consist of a majority of independent directors however the skills and experience of both the independent and non-independent directors allow the Board to act in the best interests of shareholders.

Corporate Governance Statement

Principles and Recommendations	Compliance	Comply
Principle 3 – Promote ethical and responsible decision making		
3.1	<p>Establish a code of conduct and disclose the code or a summary of the code.</p> <p>The Board has adopted a code of conduct. The code establishes a clear set of values that emphasise a culture encompassing strong corporate governance, sound business practices and good ethical conduct.</p> <p>The code is available on the company's website.</p>	Complies.
3.2	<p>Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.</p> <p>The Board has undertaken a review of the mix of skills and experience on the Board in light of the company's principal activities and direction.</p> <p>The code is available on the company's website.</p> <p>The Board will prepare a Diversity Policy that considers the benefits of diversity, ways to promote a culture of diversity, factors to be taken into account in the selection process of candidates for Board and senior management positions in the company, education programs to develop skills and experience in preparation for Board and senior management positions, processes to include review and appointment of directors, and identify key measurable diversity performance objectives for the Board, CEOs and senior management.</p>	Does not comply however the Board has committed the company to review and prepare a Diversity Policy that considers all aspects of diversity in accordance with corporate governance guidelines.
3.3	<p>Provide the information indicated in <i>Guide to reporting on Principle 3</i>.</p> <p>On completion and acceptance of a Diversity Policy, the company will report in each annual report the measurable objectives for achieving gender diversity set by the Board.</p>	Does not comply however the Board has committed the company to review and prepare a Diversity Policy that considers all aspects of diversity in accordance with corporate governance guidelines.
	<p>The company will include in the directors' report the proportion of women employees and their position held within the company.</p>	Does not comply.
Principle 4 – Safeguard integrity in financial reporting		
4.1	<p>The Board should establish an audit committee.</p> <p>The Board has established an audit committee which operates under an audit committee charter to focus on issues relevant to the integrity of the company's financial reporting.</p>	Complies.

Corporate Governance Statement

Principles and Recommendations	Compliance	Comply
4.2	<p>The audit committee should be structured so that it consists of only non-executive directors, a majority of independent directors, is chaired by an independent chair who is not chair of the Board and have a least 3 members.</p> <p>Members of the audit committee are Jamie Khoo (Chair), Damian Isbister and Richard Symon. Jamie Khoo is a non-executive director and is not chair of the Board. The committee consists of one non-executive director and two executive directors.</p> <p>The audit committee did not comply with Recommendation 4.2 in that the committee:</p> <ul style="list-style-type: none"> did not consist of only non-executive directors; did not consist of a majority of independent directors; and, was not chaired by an independent chair for the entire year. 	Does not comply due to the composition of the Committee. However, the Board considers the directors to be the most appropriate members to constitute the audit committee given their technical, finance and accounting expertise and broad knowledge of the industry in which the company operates within.
4.3	<p>The audit committee should have a formal charter.</p> <p>The Board has adopted an audit charter.</p> <p>This charter is available on the company's website.</p>	Complies.
4.4	<p>Provide the information indicated in <i>Guide to reporting on Principle 4</i>.</p> <p>In accordance with the information suggested in <i>Guide to Reporting on Principle 4</i>, this has been disclosed in the directors report attached to this Corporate Governance Statement and is summarised in this Corporate Governance Statement.</p> <p>The members of the audit committee are appointed by the Board and recommendations from the committee are presented to the Board for further discussion and resolution.</p> <p>The audit committee held four meetings during the period to the date of the directors' report and meets at least twice per annum.</p> <p>The audit charter, and information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners (which is determined by the audit committee), is available on the company's website.</p>	Complies.
Principle 5 – Make timely and balanced disclosure		
5.1	<p>Establish written policies designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.</p> <p>The company has adopted a continuous disclosure policy, to ensure that it complies with the continuous disclosure regime under the ASX Listing Rules and the Corporations Act 2001.</p> <p>This policy is available on the company's website</p>	Complies.
5.2	<p>Provide the information indicated in the <i>Guide to reporting on Principle 5</i>.</p> <p>The company's continuous disclosure policy is available on the company's website.</p>	Complies.

Corporate Governance Statement

Principles and Recommendations	Compliance	Comply	
Principle 6 – Respect the rights of shareholders			
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.	The company has adopted a shareholder communications policy. The company uses its website (www.mdsfinancial.com.au), annual report, market announcements and media disclosures to communicate with its shareholders, as well as encourages participation at general meetings. This policy is available on the company's website.	Complies.
6.2	Provide the information indicated in the <i>Guide to reporting on Principle 6</i> .	The company's shareholder communications policy is available on the company's website.	Complies.
Principle 7 – Recognise and manage risk			
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of these policies.	The company has adopted a risk management statement within the audit and risk committee charter. The audit and risk committee is responsible for managing risk; however, ultimate responsibility for risk oversight and risk management rests with the Board. The audit and risk charter is available on the company's website and is summarised in this Corporate Governance Statement.	Complies.
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks an report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	The company has identified key risks within the business. In the ordinary course of business, management monitor and manage these risks. Key operational and financial risks are presented to and reviewed by the Board at each Board meeting.	Complies.
7.3	The Board should disclose whether it has received assurance from the chief executive officer and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating efficiently in all material respects in relation to the financial reporting risks.	The Board has received a statement from the chief executive officers and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that they system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.	Complies.

Corporate Governance Statement

Principles and Recommendations	Compliance	Comply	
7.4	Provide the information indicated in the <i>Guide to reporting on Principle 7</i> .	The Board has adopted an audit and risk charter which includes a statement of the company's risk policies. This charter is available on the company's website and is summarised in this Corporate Governance Statement. The company has identified key risks within the business and has received a statement of assurance from the chief executive officers and chief financial officer.	Complies.
Principle 8 – Remunerate fairly and responsibly			
8.1	The Board should establish a remuneration committee.	The Board has established separate Nomination and Remuneration Committees and has adopted a remuneration charter.	Complies.
8.2	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The company complies with the guidelines for executive remuneration packages and non-executive director remuneration. No senior executive is involved directly in deciding their own remuneration.	Complies.
8.3	Provide the information indicated in <i>Guide to reporting on Principle 8</i> .	The Board has adopted a Nomination and Remuneration Committee Charter. The company does not have any schemes for retirement benefits.	Complies.

MDS Financial Group Limited's corporate governance practices were in place for the financial year ended 30 June 2011 and to the date of signing the directors' report.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by MDS Financial Group Limited, refer to our website: www.mdsfinancial.com.au.

As required by the ASX Listing Rules, this statement sets out the extent to which the Company has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("Recommendations") during the year to 30 June 2011. The Company considers that its governance practices are generally consistent, where possible, with the Recommendations except where stated.

Board Functions

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems.

It is also responsible for approving and monitoring financial and other reporting

Responsibilities / functions of the Board include:

- setting the direction, financial objectives and goals for management;
- reviewing and approving strategies for the Company;
- monitoring management's performance against these goals and objectives;
- ensuring there are appropriate standards of Corporate Governance and ethical standards;
- evaluating the performance and determining the remuneration of the senior executive officers of the Company;
- ensuring appropriate risk management systems, internal control, reporting systems and compliance frameworks are in place and operating effectively; and
- ensuring there are plans and procedures for recruitment, training, remuneration and succession planning for senior executives.

The board has delegated responsibility for operating and administration of the Company to the executive management. Responsibilities are delineated by formal authority delegations.

Matters which are specifically reserved for the Board or its committees include the following:

- appointment of the Chairman and if applicable, the Deputy Chairman;
- appointment and removal of the Chief Executive Officer(s);
- appointment of directors to fill a vacancy or as additional directors;
- establishment of Board committees, their membership and delegated authorities;
- approval of dividends;
- development and review of corporate governance principles and policies;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management;
- calling meetings of shareholders and;
- any other specific matters nominated by the board from time to time.

Structure of the Board

The company's constitution governs the regulation and proceedings of the Board.

It is intended that the composition of the board be determined using the following principles:

- a minimum of three directors, with a broad range of expertise
- a majority of directors having extensive knowledge of the Company's industries, and those who do not, having extensive experience in significant aspects of auditing and financial reporting, or risk management of large companies
- a majority of independent non-executive directors
- enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities
- a maximum period of ten years service, subject to re-election every three years (except for the managing director).

At present the company does not have a majority of independent directors and continues to consist of a majority of executive directors involved in the general management of the Company. The Directors are of the view that maintaining this structure is appropriate to the circumstances of the Group as the Board consolidates the restructure of its operations and repositioning of its business.

The Board only considers directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgment. The Board has adopted a definition of independence based on that set out in Principle 2 of the ASX Corporate Governance Revised Principles and Recommendations. The Board will review the independence of each director in light of interests disclosed to the Board from time to time.

Corporate Governance Statement

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

Name	Position
Jamie Gee Choo Khoo	Non-Executive Director

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

The appointment date of each director in office at the date of this report is as follows:

Name	Position	Appointment Date
Sean Peter Rothsey	Non-Executive Director, Chairman	19 September 2007
Jamie Khoo	Non-Executive Director	28 February 2011
Wayne Noel Johnson	Executive Director, Deputy Chairman	20 May 2011
Damian Wayne Isbister	Executive Director, Chief Executive Officer - Trading	27 November 2008
Bruce Richard Sydney Symon	Executive Director, Chief Executive Officer - Software	27 November 2008

Further details on each director can be found in the directors' report attached to this Corporate Governance Statement.

Securities trading policy

The company has adopted a Share Trading Policy which complies with the requirements of ASX Listing Rules.

Under the company's Share Trading Policy, directors, officers and employees of the company are prohibited from dealing in the company's securities at any time that they may be in possession of unpublished price-sensitive information concerning the company. In addition, there are specified closed periods during which dealing in the company's securities is prohibited except under very exceptional circumstances. A closed period is the period commencing from the end of a reporting period and concluding on the business day following the announcement to the market of the company's full year results of half-year results (as the case may be).

Directors, officers and employees can only deal in the company's securities after having first obtained clearance from the Chairman and must notify the company secretary when a trade has occurred.

As required by the ASX Listing Rules, the company notifies the ASX of any transaction conducted by directors in the securities of the company within five days of the transaction taking place.

The Share Trading Policy has been issued to ASX and can be found on the company's website.

Audit committee

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

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The members of the Audit Committee during the year were:

Jamie Khoo	(Independent Non-Executive Director, appointed 28 February 2011)
Damian Isbister	(Executive Director)
Richard Symon	(Executive Director)

The external auditors and the executive management are invited to audit committee meetings at the discretion of the committee.

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

Corporate Governance Statement

Risk and Compliance

The responsibility for overseeing risk falls within the charter of the Risk and Compliance Committee. The company identifies areas of risk within the company and management and the Board continuously undertake a risk assessment of the company's operations, procedures and processes. The risk assessment is aimed at identifying the following:

- a culture of risk control and the minimisation of risk throughout the company, which is being done through natural or instinctive processes by employees of the company;
- a culture of risk control that can easily identify risks as they arise and amend practices;
- the installation of practices and procedures in all areas of the business that are designed to minimise an event or incident that could have a financial or other effect on the business and its day to day management; and,
- adoption of these practices and procedures to minimise many of the standard commercial risks, ie taking out the appropriate insurance policies, or ensuring compliance reporting is up to date.

CEO and CFO certification

The chief executive officers and chief financial officer have given a written declaration to the Board required by section 295A of the Corporations Act 2001 that in their view:

- the company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board;
- the company's risk management and internal compliance and control system is operating effectively in all material respects;
- the company's financial statements and notes thereto comply with the accounting standards; and,
- the company's financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date.

Directors' Report

The directors of MDS Financial Group Limited ("the Company") present the annual financial report for the Group, being parent entity and its subsidiaries, for the year ended 30 June 2011. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the Company during or since the beginning of the year are:

Mr Sean Peter Rothsey

Non-Executive Chairman (appointed 19 September 2007)

Over the last 25 years, Sean has been involved in a wide range of industries from many perspectives and has established influential connections in shipping and transport, trading, financial and accounting professions, legal, insurance and underwriting, retail and private banking, film entertainment and marketing. Sean is an exceptional mediator and negotiator and is currently director and chairman of a number of private and public unlisted companies. He also subscribes to corporate social responsibility and is particularly interested in ethical investments. Sean was appointed Executive Chairman on 7 February 2008, relinquishing Executive duties from 1 February 2010.

Mr Wayne Noel Johnson

Executive Deputy Chairman (appointed 20 May 2011)

Wayne has over 25 years business and financial transaction experience gained in Australia, New Zealand, Asia and North America. He has founded and managed a range of businesses from start-up through to public listings and has been responsible for a number of large business sales in the telecommunication industries and resource sectors to multi-national buyers. Wayne provides the company with a wealth of experience in merger and acquisitions, corporate advisory, public listings and general business development.

Ms Jamie Gee Choo Khoo

Non-Executive Director (appointed 28 February 2011)

Jamie has over 20 years experience in accounting and corporate finance including project financing, capital raising, IPO, investment evaluation, due diligence and restructuring. Jamie has previously held senior positions in companies in Singapore, Hong Kong and China including Adventus Holdings Ltd, STT Communications Ltd, Hughes Tool Singapore Pte Ltd and ABB Holding Ltd.

Jamie holds a Bachelor of Accountancy from the National University of Singapore and a MBA from the University of Hull (United Kingdom). She is a Fellow Member of the Institute of Certified Public Accountants of Singapore and a member of the Singapore Institute of Directors

Mr Damian Wayne Isbister

Executive Director and CEO Trading (appointed 27 November 2008)

Damian has been involved in the financial markets since 1998 and has held various roles in this sector. Damian has an excellent knowledge of information technology issues, including web based services and has a particular interest in online media and marketing. Damian also brings skills obtained from advising companies in the mining, IT, financial services and consumables sectors. Damian was previously Investment Manager for an MDS Financial Group subsidiary company and brings a strong supply and distribution dynamic to the team. Damian is Chairman of the Nomination and Audit Committees and a member of the Remuneration Committee.

Damian holds a B.Com, Financial Planning from Deakin University, is RG146 compliant and an Accredited Derivatives Adviser (ASX) Level 1.

Directors' Report

Mr Bruce Richard Sydney Symon

Executive Director and CEO Software (appointed 27 November 2008)

Richard has held various positions in financial services over 25 years including CEO of NSX Ltd, (National Stock Exchange), Executive Director of the Stockbroking Association – SDIA and Director of Client Services at Prudential-Bache Securities. In 1997 he co-founded one of Australia's first online stockbrokers, ShareTrade – Australian Stockbroking, which was acquired by ASX listed eCorp Ltd, Publishing and Broadcasting Ltd's internet company which became Charles Schwab Australia. Richard has extensive experience in multi channel enterprises, corporate advisory, compliance and education. He is currently Chair of the Financial Services Foundation, Growth Markets Organisation and a Fellow of FINSIA. Richard is Chairman of the Remuneration Committee and a member of the Nomination and Audit Committees.

Directorships of other listed companies

Directorships of other listed companies held by directors in the last 3 years immediately before the end of the financial year are as follows:

Director	Company	Exchange	Period from	Period to
WN Johnson	Greater Bendigo Gold Mines Limited	ASX	10 Feb 2010	Current
WN Johnson	Cape Range Limited	ASX	9 Sep 2009	Current
WN Johnson	Smartpay Holdings Limited	NZX	15-Oct-2001	Current
JGC Khoo	Refresh Group Ltd	ASX	25 Nov 2010	Current

Directors' shareholdings

The following table sets out the number of each director's relevant interest in shares and options over shares or interest in contracts relating to shares of the Company or a related body corporate as at the date of this report.

Director	Fully paid ordinary shares	Indirect interest in shares	Indirect interest in share options
SP Rothsey	16,493,698	20,048,300	-
WN Johnson	-	17,615,199	12,500,000
DW Isbister	-	27,653,264	-
BRS Symon	25,750,000	2,795,000	-

Remuneration of directors and senior management

Information about the remuneration of directors and key management personnel is set out in the remuneration report of this directors' report on page 26.

Share options granted to directors and senior management

Company Secretary

Mr Anthony John Iremonger BCom, CPA
Chief Financial Officer and Company Secretary

Tony was appointed Company Secretary on 7 May 2010. Tony has over 25 years in finance and stockbroking (including 2½ years with MDS Financial Group Limited) with experience in accounting, compliance and company secretarial roles.

Principal Activities

The Group's principal activity in the course of the financial year was as a provider of diversified financial services to retail and wholesale clients. No significant change in the nature of this activity occurred during the year. More details on the Group's principal activities are included in the Chairman's report on page 5 of this annual report.

Directors' Report

Review of Operations

The consolidated operating net loss after income tax attributable to members is \$1,288,793 (2010: \$349,140). A review of operations for the Group is set out on pages 5 to 9 of this annual report, commencing with the Chairman's Report.

Change in the state of affairs

There has been no significant change in the state of affairs during or since the end of the financial year.

Subsequent events

Other than the subsequent events as disclosed in note 29 to the financial statements, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future Developments

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

Environmental regulation and performance

The Group's operations are not involved in any activities that have a marked influence on the environment. As such, the directors are not aware of any material issues affecting the Group or its compliance with the relevant environment agencies or regulatory authorities.

Dividends

There have been no dividends paid or provided for (2010: nil).

Share options

As at the date of this report, there are 12,500,000 (2010: 77,100,000) unissued ordinary shares of MDS Financial Group Limited under options.

Indemnification and insurance of officers and auditors

During the financial year, the Company paid premiums based on normal commercial terms and conditions to insure all directors, officers and employees of the Group against the costs and expenses in defending claims brought against the individual while performing services for the Group. The premium paid has not been disclosed as it is subject to the confidentiality provisions of the insurance policy. The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

During the year, the Company entered into a Deed of Indemnity, Insurance and Access with Mr Johnson and Ms Khoo. The purpose of the Deed is to:

- Confirm the indemnity provided by the Company in favour of Directors under the Company's Constitution;
- Include an obligation upon the Company to maintain adequate Directors and Officers liability insurance; and
- Confirm the right of access to certain documents under the Corporations Act

The Company has previously entered into similar Deeds with its other current directors: Messrs Rothsey, Isbister and Symon; and, the following former directors: Mr David Whitfield, Mr Allan Shek, Mr Alun Stevens, Mr Leon Hinde and Mr Barry Littler.

Directors' Report

Directors' meetings

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director (while they were a director). During the financial year, there were 4 Board meetings held. All other Board matters arising during the year being resolved by Circulating Resolutions.

Director	Eligible to attend	Attended
SP Rothsey	4	2
WN Johnson	2	2
JGC Khoo	4	3
DW Isbister	4	3
BRS Symon	4	4

(a) Ms Khoo was appointed on 28 February 2011.

(b) Mr Johnson was appointed on 20 May 2011 and was Deputy Chairman of the Board of Directors from this date.

Audit Committee

During the financial year, there were 4 Audit Committee meetings held. Other matters arising during the year were resolved by Circulating Resolutions.

Member	Eligible to attend	Attended
DW Isbister	4	4
JGC Khoo	3	3
BRS Symon	4	4

(a) Ms Khoo was appointed on 28 February 2011.

Remuneration Committee

During the financial year, there was one Remuneration Committee meeting held.

Member	Eligible to attend	Attended
DW Isbister	1	1
JCG Khoo	0	0
BRS Symon	1	1

(a) Ms Khoo was appointed on 28 February 2011.

Nomination Committee

During the financial year, there were no Nomination Committee meetings held. Matters arising during the year were resolved by Circulating Resolutions

Member	Eligible to attend	Attended
DW Isbister	0	0
SP Rothsey	0	0

Directors' Report

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 22 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or another person or firm on the auditors' behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 22 to the financial statements do not compromise the external auditor's independence, based on advice received from the audit committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and,
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditors own work, acting in a management or decision making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former audit partners of PKF

There are no officers of the company who are former audit partners of PKF.

Auditor's independence declaration

The auditor's independence declaration is included on page 29 of the financial report and forms part of the Directors' Report for the year ended 30 June 2011.

Remuneration Report (audited)

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:

- A. Director and senior management details
- B. Remuneration policies
- C. Remuneration of directors and senior management
- D. Additional information

A. Director and senior management details

• Mr Sean Peter Rothsey	Non-Executive Chairman
• Ms Jamie Gee Choo Khoo	Non-Executive Director (appointed 28 February 2011)
• Mr Wayne Noel Johnson	Executive Deputy Chairman (appointed 20 May 2011)
• Mr Damian Wayne Isbister	Executive Director and Chief Executive Officer - Trading
• Mr Bruce Richard Sydney Symon	Executive Director and Chief Executive Officer - Software

In addition to the directors noted above, the following persons represent the senior management of the Group during or since the end of the year:

• Mr Thomas Patrick Boland	CEO D2MX Pty Ltd (appointed on 1 st April 2011)
• Mr Craig Bradley Foley	Chief Information Officer
• Mr Anthony John Iremonger	Chief Financial Officer and Company Secretary

B. Remuneration policies

The performance of the Group depends upon the quality of its directors and executives. The Group recognises the need to attract, motivate and retain highly skilled directors and executives.

The Board of Directors, through its Remuneration Committee, accepts responsibility for determining and reviewing remuneration arrangements for the directors and the senior management team. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions, giving due consideration to the overall profitability and financial resources of the Group, with the objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

The Board proposes to review reward structures and the remuneration arrangements for directors and executives in conjunction with a return to profitability.

Non-executive director remuneration

Fees and payments to non-executive directors reflect the demands which are made of the directors in fulfilling their responsibilities. Non-executive director fees are reviewed annually by the Board. The constitution of the Company provides that the non-executive directors of the company are entitled to such remuneration, as determined by the Board, which must not exceed in aggregate the maximum amount determined by the Company in general meeting. The most recent determination was at the Annual General Meeting held on 15 December 2006 where the shareholders approved an aggregate remuneration of \$200,000.

Senior management and executive director remuneration

Executive remuneration comprises:

- Fixed remuneration component
- Variable remuneration component including short-term incentive (STI) and long-term incentive (LTI).

Fixed remuneration

Fixed remuneration consists of base remuneration as well as employer contributions to superannuation. Remuneration levels are reviewed annually through a process that considers individual performance and that of the overall Group.

Variable remuneration – short term incentive (STI)

STIs are available to executives who achieve revenue and/or profit targets. The Board is responsible for determining who is eligible to participate in STI arrangements as well as the structure of those arrangements. STIs include participation in the Company's Employee Share Scheme.

Remuneration Report (audited)

Variable remuneration – long term incentive (LTI)

The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such, LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance against relevant long term performance hurdles. LTI grants to executives are delivered in the form of options or shares.

In 2011, a total of 12,500,000 (2010: nil) fully vested options, issued for nil consideration, exercisable at 5 cents and expiring 30 June 2013 have been allocated under the LTI program to key management personnel. There is no performance criteria associated with the issue of these options.

C. Remuneration of directors and senior management

Remuneration shown below relates to the period in which the director or executive was a member of key management personnel.

	Short-term benefits		Post employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Bonus	Super-annuation	Long service leave	Shares	Options	
	\$	\$	\$	\$	\$	\$	\$
2011							
<i>Non-Executive Directors:</i>							
JGC Khoo ⁽¹⁾	7,339	-	661	-	-	-	8,000
SP Rothsey	60,000	-	5,400	-	-	-	65,400
<i>Executive Directors:</i>							
DW Isbister	142,932	-	12,864	-	-	-	155,796
WN Johnson ⁽²⁾	4,000	-	-	-	-	-	4,000
BRS Symon	120,000	-	-	-	-	-	120,000
<i>Other Key Management Personnel:</i>							
TP Boland ⁽³⁾	26,250	11,250	3,375	-	-	-	40,875
CB Foley ⁽⁴⁾	136,000	-	12,240	-	1,000	-	149,240
AJ Iremonger	96,000	-	24,000	-	-	-	120,000
WN Johnson ⁽⁵⁾	24,000	-	-	-	-	46,384	70,384
	616,521	11,250	58,540	-	1,000	46,384	733,695

(1) Represents remuneration from 28 February 2011 to 30 June 2011.

(2) Represents remuneration from 20 May 2011 to 30 June 2011.

(3) Represents remuneration from 1 April 2011 to 30 June 2011. Bonus was a discretionary cash bonus and not part of any formal long term incentive programme.

(4) Share-based payment received as an eligible participant of Exempt Employee Share Plan (refer Note 33)

(5) Represents remuneration from 1 April 2011 to 19 May 2011. Bonus was received as a sign-on incentive.

	Short-term benefits		Post employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Bonus	Super-annuation	Long service leave	Equity settled		
	\$	\$	\$	\$	\$	\$	\$
2010							
<i>Non-Executive Directors:</i>							
SP Rothsey	60,000	-	-	-	-	-	60,000
<i>Executive Directors:</i>							
DW Isbister	142,932	-	12,864	-	-	-	155,796
BRS Symon	120,000	-	-	-	-	-	120,000
<i>Other Key Management Personnel:</i>							
CB Foley	145,130	-	13,062	-	-	-	158,192
AJ Iremonger	96,000	-	24,000	-	-	-	120,000
	564,062	-	49,926	-	-	-	613,988

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>						
SP Rothsey	100%	100%	-%	-%	-%	-%
JGC Khoo	100%	-%	-%	-%	-%	-%
<i>Executive Directors:</i>						
DW Isbister	100%	100%	-%	-%	-%	-%
WN Johnson ⁽¹⁾	100%	100%	-%	-%	-%	-%
BRS Symon	100%	100%	-%	-%	-%	-%
<i>Other Key Management Personnel:</i>						
TP Boland	100%	-%	-%	-%	-%	-%
CB Foley	100%	100%	-%	-%	-%	-%
AJ Iremonger	100%	100%	-%	-%	-%	-%
WN Johnson ⁽²⁾	100%	-%	-%	-%	-%	-%

(1) Represents remuneration from 20 May 2011 to 30 June 2011.

(2) Represents remuneration from 1 April 2011 to 20 May 2011.

Key terms of employment contracts

The employment terms and conditions of key management personnel and Group executives are formalised in standard contracts of employment. All contracts are for no fixed term with 1 month's notice required for termination by either party.

D. Additional Information

The following table shows the gross revenue, profits and dividends for the last five years of the listed entity, as well as the share prices at the end of the respective financial years.

	2007	2008	2009	2010	2011
	\$	\$	\$	\$	\$
Revenue	6,575,899	8,079,086	6,479,644	6,060,935	7,448,877
Net loss	(8,982,197)	(7,852,224)	(544,379)	(349,140)	(1,288,793)
Share price at year end	\$0.085	\$0.030	\$0.012	\$0.030	\$0.019
Dividends paid	Nil	Nil	Nil	Nil	Nil

Consolidated entity performance and link to remuneration

The company's remuneration policy seeks to reward staff members for their contribution to achieving significant milestones. There is no direct link between remuneration and growth in the company's share price or financial performance.

This concludes the remuneration report, which has been audited.

The directors' report is signed in accordance with a resolution of the directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the Directors

Wayne Johnson
Deputy Chairman

30 September 2011

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: **The Directors**
MDS Financial Group Limited and the entities it controlled during the year

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and
- no contraventions of any applicable code of professional conduct in relation to the audit.

D J Garvey
Partner
PKF

30 September 2011
Melbourne

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General Information

The financial report covers MDS Financial Group Limited as a consolidated entity consisting of MDS Financial Group Limited and the entities it controls. The financial report is presented in Australian dollars, which is MDS Financial Group Limited functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

MDS Financial Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 37
Rialto South Tower
525 Collins Street
Melbourne VIC 3000

A description of the nature of the consolidated entity's operation and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 30 September 2011. The directors have the power to amend and reissue the financial report.

Consolidated Statement of Comprehensive Income

For the year ended June 2011

	Note	Consolidated	
		2011	2010
		\$	\$
Revenue from continuing operations	4	7,448,877	6,096,740
Expenses			
Data fees		(2,125,107)	(1,934,798)
Dealing and settlement		(1,817,352)	(744,255)
Employee benefits	5	(2,120,809)	(2,105,346)
Occupancy		(348,817)	(389,341)
Telecommunications		(239,814)	(290,589)
Marketing		(220,392)	(142,208)
General and administrative		(617,443)	(507,884)
Depreciation and impairment	5	(1,157,180)	(95,119)
Other		(90,756)	(236,340)
Loss before income tax from continuing operations		(1,288,793)	(349,140)
Income tax expense	6	-	-
Loss after income tax from continuing operations		(1,288,793)	(349,140)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		(1,288,793)	(349,140)
Loss for the year is attributable to:			
Non-controlling interest		-	(4,088)
Owners of MDS Financial Group Limited		(1,288,793)	(345,052)
		(1,288,793)	(349,140)
Total comprehensive income for the year is attributable to:			
Non-controlling interest		-	(4,088)
Owners of MDS Financial Group Limited		(1,288,793)	(345,052)
		(1,288,793)	(349,140)

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

Consolidated Statement of Comprehensive Income

For the year ended June 2011

	Note	Consolidated	
		2011	2010
		\$	\$
		Cents	Cents
Earnings per share from continuing operations attributable to the owners of MDS Financial Group Limited			
Basic earnings per share	32	(0.486)	(0.157)
Diluted earnings per share	32	(0.486)	(0.157)
Earnings per share for loss attributable to the owners of MDS Financial Group Limited			
Basic earnings per share	32	(0.486)	(0.157)
Diluted earnings per share	32	(0.486)	(0.157)

All potential ordinary shares, being options to acquire ordinary shares are not considered dilutive, as the exercise of the options would decrease the basic loss per share.

Statement of Financial Position

As at 30 June 2011

	Note	Consolidated	
		2011	2010
		\$	\$
Assets			
Cash and cash equivalents	7	892,338	870,166
Trade and other receivables	8	376,057	243,781
Financial assets at fair value through profit or loss	9	65,698	10,500
Other assets	10	58,010	126,981
Total current assets		1,392,103	1,251,428
Financial assets at fair value through profit or loss	9	694,792	7,652
Plant and equipment	11	141,128	198,237
Intangible assets	12	2,405,608	2,932,565
Other assets	10	124,673	161,093
Total non-current assets		3,366,201	3,299,547
Total assets		4,758,304	4,550,975
Trade and other payables	13	1,127,818	820,991
Deferred income	14	494,151	562,104
Employee benefits	15	196,083	165,083
Total current liabilities		1,818,052	1,548,178
Employee benefits	15	18,165	11,792
Total non-current liabilities		18,165	11,792
Total liabilities		1,836,217	1,559,970
Net assets		2,922,087	2,991,005
Equity			
Contributed equity	16	21,845,146	20,671,655
Reserves	17	46,384	3,080
Accumulated losses	18	(18,969,443)	(17,683,730)
Total equity		2,922,087	2,991,005

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

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

Statement of Changes in Equity

For the year ended 30 June 2011

Consolidated	Contributed Equity	Reserves	Accumulated Losses	Non-controlling Interest	Total Equity
	\$	\$	\$	\$	\$
Balance at 1 July 2009	19,169,655	3,080	(17,120,265)	219	2,052,689
Loss after income tax expense for the year	-	-	(345,052)	(4,088)	(349,140)
Total comprehensive income for the year	-	-	(345,052)	(4,088)	(349,140)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	1,502,000	-	-	-	1,502,000
Acquired non-controlling interest (Note 27)	-	-	(218,413)	3,869	(214,544)
Balance at 30 June 2010	20,671,655	3,080	(17,683,730)	-	2,991,005

Consolidated	Contributed Equity	Reserves	Accumulated Losses	Non-controlling Interest	Total Equity
	\$	\$	\$	\$	\$
Balance at 1 July 2010	20,671,655	3,080	(17,683,730)	-	2,991,005
Loss after income tax expense for the year	-	-	(1,288,793)	-	(1,288,793)
Total comprehensive income for the year	-	-	(1,288,793)	-	(1,288,793)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	1,213,542	-	-	-	1,213,542
Shares bought back	(40,051)	-	-	-	(40,051)
Share based payments	-	43,304	3,080	-	46,384
Balance at 30 June 2011	21,845,146	46,384	(18,969,443)	-	2,922,087

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

Statement of Cash Flows

For the year ended 30 June 2011

	Note	Consolidated	
		2011	2010
		\$	\$
Cash flows from operating activities			
Cash receipts from customers		6,305,360	6,837,147
Cash paid to suppliers and employers		(6,933,729)	(7,203,272)
Interest received		23,247	35,805
Interest paid		(3,953)	(6,863)
Net Cash used in operating activities	30	(609,075)	(337,183)
Cash flows from investing activities			
Proceeds from sale of investments		30,000	-
Proceeds from repayment of bonds and guarantees		36,420	101,314
Payment for property, plant and equipment		(28,984)	(123,015)
Payment for investments		(35,550)	-
Payment for other asset		-	(74,673)
Payment for subsidiary	27	(150,000)	(214,544)
Payment for associate		-	(7,500)
Payments for intangible assets		(394,130)	(637,417)
Net cash used in investing activities		(542,244)	(955,835)
Cash flows from financing activities			
Proceeds from issue of securities net of costs		1,213,542	1,502,000
Payment for share buy back		(40,051)	-
Net cash provided by financing activities		1,173,491	1,502,000
Net increase in cash and cash equivalents		22,172	208,982
Cash and cash equivalents at 1 July		870,166	661,184
Cash and cash equivalents at 30 June	7	892,338	870,166

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

Notes to the Financial Statements

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Notes to the Financial Statements

Note 1: Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy.

The adoption of these Accounting Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity. The following Accounting Standards and Interpretations are most relevant to the consolidated entity.

AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvement Project

The consolidated entity has applied AASB 2009-5 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

AASB 101 'Presentation of Financial Statements' – classification is not affected by the terms of a liability that could be settled by the issuance of equity instruments at the option of the counterparty;

AASB 107 'Statement of Cash Flows' – only expenditure that results in a recognised asset can be classified as a cash flow from investing activities;

AASB 118 'Revenue' – provides additional guidance to determine whether an entity is acting as a principal or agent; and,

AASB 136 'Impairment of Assets' – clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 'Operating segments' before aggregation for reporting purposes.

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2010-3 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendment that related to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

AASB 127 'Consolidated and Separate Financial Statements' and AASB3 Business Combinations – clarifies that contingent consideration from a business combination that occurred before the effective date of the revised AASB 3 is not restated; the scope of the measurement choices of non-controlling interest is limited to when the rights acquired include an entitlement to a proportionate share of net assets in the event of liquidation; requires an entity in a business combination to account for the replacement of acquiree's share-based payment transactions, unreplaced and voluntarily replaced, by splitting between consideration and post combination expenses.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Going concern

For year ended 30 June 2011 the consolidated entity has a loss of \$1,288,793 (2010: loss \$349,140) and a negative cash flow from operating cash flows of \$609,075 (2010: negative \$337,183). At balance date the consolidated entity has a current asset deficiency of \$425,949 (2010: deficiency \$296,750). These conditions indicate a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern.

The ability of the consolidated entity to continue as a going concern is dependent upon a number of factors one being the continuation and availability of funds. To this end the consolidated entity is expecting to fund its obligations beyond this working capital position as follows:

- There has been additional investment in and strategic restructuring of broking businesses and renewed focus given to corporate advisory business with demonstrated success being achieved subsequent to the end of the reporting period. The Directors are of the opinion that the services being offered will drive future revenue growth and return the group to profitability.

Notes to the Financial Statements

Note 1: Statement of Significant Accounting Policies (continued)

- The consolidated entity has raised \$1,213,542 in new capital during the period (2010: \$1,502,000); has experienced a net increase in cash and cash equivalents of \$22,172 during the period (2010: \$208,982); and, has positive net tangible assets of \$538,735 (2010: \$58,440), providing evidence that the company can raise new capital from existing and new investors.
- Since the end of the financial year there has been a significant improvement in the consolidated entity's operating cash flows due to the introduction of new broking clients and corporate advisory undertakings.

Notwithstanding, the consolidated entity has the ability to scale down operations and discontinue certain programs should the need arise.

Cash flow forecasts prepared by management demonstrate the consolidated entity has sufficient cash flows to meet its commitments over the next 12 months based on the above factors, and for that reason the financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business.

Should the company be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any carrying amounts or the amount of liabilities that might result should the company be unable to continue as a going concern and meet its debts as and when they fall due.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 26.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of MDS Financial Group Limited ('company' or 'parent entity') as at 30 June 2011 and the results of all subsidiaries for the year then ended. MDS Financial Group Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Notes to the Financial Statements

Note 1: Statement of Significant Accounting Policies (continued)

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The financial report is presented in Australian dollars, which is MDS Financial Group Limited's functional and presentation currency.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Rendering of services

Revenue from the provision of services to customers is recognised upon delivery of the service to the customer. Revenue received that relates to the provision for future services is accounted for as deferred income.

Interest revenue

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

Commissions

When the consolidated entity acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the consolidated entity.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

All revenue is stated net of the amount of goods and services tax (GST).

Income Tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and under and over provisions in prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or 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 nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intent to settle simultaneously.

Notes to the Financial Statements

Note 1: Statement of Significant Accounting Policies (continued)

MDS Financial Group Limited (the 'head entity') and its wholly-owned Australian controlled entities have formed an income tax consolidated group under the tax consolidation regime. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the group allocation approach in determining the appropriate amount of taxes to allocate to member of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Cash and cash equivalents

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

Trade Receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Investments and other financial assets

Investments and other financial assets are measured at either amortised cost or fair value depending upon their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arms length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or, ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets, principally equity securities, that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised directly in the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

Notes to the Financial Statements

Note 1: Statement of Significant Accounting Policies (continued)

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or, observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Available for sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised directly to profit or loss.

Derivative financial instruments

Derivatives are initially measured at fair values on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Plant and equipment

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The depreciable amounts of all fixed assets are depreciated on a reducing balance basis over their estimated useful lives commencing from the time the asset is held ready for use.

	2011	2010
Plant and equipment:	11.3% to 50%	11.3% to 50%

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangibles are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Australian Securities Exchange licence

The licence relating to participant status of the Australian Securities Exchange will be amortised on a straight-line basis over a period of 5 years commencing 1 July 2011..

Notes to the Financial Statements

Note 1: Statement of Significant Accounting Policies (continued)

Software Development

Significant costs associated with software development are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Impairment of non-financial assets

Goodwill and other 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 non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within 30 to 60 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable that the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based remuneration benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

Notes to the Financial Statements

Note 1: Statement of Significant Accounting Policies (continued)

The costs of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The costs of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the reporting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transaction is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based remuneration benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the conditions is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

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.

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the consolidated entity.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit and loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Notes to the Financial Statements

Note 1: Statement of Significant Accounting Policies (continued)

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of MDS Financial Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

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

Goods and Services Tax ('GST') and other similar taxes

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

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

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2011. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 2009-12 Amendments to Australian Accounting Standards

These amendments are applicable to annual reporting periods beginning on or after 1 July 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which have no major impact on the requirements of the amended pronouncements. The main amendment is to AASB 8 'Operating Segments' and requires an entity to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

Notes to the Financial Statements

Note 1: Statement of Significant Accounting Policies (continued)

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial

instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity investments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the consolidated entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments are a consequence of the annual improvements project and make numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provide clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Instruments'; and provides guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 2010-5 Amendments to Australian Accounting Standards

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 124 Related Party Disclosures (December 2009)

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2011. This revised standard simplifies the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. This revised standard introduces a partial exemption of disclosure requirement for government-related entities. The adoption of this standard from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets

These amendments are applicable to annual reporting periods beginning on or after 1 July 2011. These amendments add and amend disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. The adoption of these amendments from 1 July 2011 will increase the disclosure requirements of the consolidated entity when an asset is transferred but is not derecognised and new disclosure required when assets are derecognised but the consolidated entity continues to have a continuing exposure to the asset after the sale.

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: recovery of Underlying Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the consolidated entity has clear evidence the economic benefits of the underlying asset will be consumed during its economic life. The consolidated entity is yet to quantify the tax effect of adopting these amendments from 1 July 2012.

Notes to the Financial Statements

Note 1: Statement of Significant Accounting Policies (continued)

AASB 10 Consolidation

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2013. AASB 10 replaces AASB 127 and 3 key elements of control. According to AASB 10 an investor controls an investee if and only if the investor has all the following:

- (χ) power over the investee;
- (δ) exposure, or rights, to variable returns from its involvement with the investee; and
- (ε) the ability to use its power over the investee to affect the amount of the investor's returns.

The adoption of this standard from 1 January 2013 will not have a material impact on the consolidated entity.

AASB 11 Joint Arrangements

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2013. AASB 11 replaces the AASB 131 Interests in Joint Ventures. The previous standard had 3 types of Joint ventures whereas AASB 11 only has two. These are Joint Operations and Joint Ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers. Joint ventures must now be accounted for using the equity method of accounting. The option to proportionately consolidate a joint venture entity has been removed. This will have significant implications for entities that currently use proportionate consolidation. Some entities only have interests in joint ventures and only use proportionate consolidation. Adopting AASB 11 will cause them to use equity accounting and will result in a different presentation in the Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flows. The adoption of this standard from 1 January 2013 will not have a material impact on the consolidated entity.

AASB 12 Disclosure of Interests in Other Entities

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2013. AASB 12 provides the disclosure requirements for entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. As such, it pulls together and replaces disclosure requirements from many existing standards. The adoption of this standard from 1 January 2013 will not have a material impact on the consolidated entity.

AASB 13 Fair Value Measurement

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2013. AASB 13 defines fair value; sets out in a single IFRS a framework for measuring fair value; and, requires disclosures about fair value measurements. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price)". The adoption of this standard from 1 January 2013 will not have a material impact on the consolidated entity.

Notes to the Financial Statements

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumption 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, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances, the resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity 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 using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. 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 profit or loss and equity.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Fair value and hierarchy of financial instruments

The consolidated entity is required to classify financial instruments, measured at fair value, using a three level hierarchy, being Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). An instrument is required to be classified in its entirety on the basis of the lowest level of valuation inputs that is significant to fair value. Considerable judgement is required to determine what is significant to fair value and therefore which category the financial instrument is placed in can be subjective.

The fair value of financial instruments classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Estimation of the useful life of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and definite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating condition specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax based on the consolidated entity's current understanding of the tax law. Where

Notes to the Financial Statements

Note 2. Critical accounting judgements, estimates and assumptions (continued)

the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Long service leave provision

As discussed in note 1, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increased through promotion and inflation have been taken into account.

Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 3. Operating Segments

Identification of reportable operating segments

The consolidated entity is organised into three operating segments: data subscriptions, broking and corporate advisory. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and profit before income tax.

The information reported to the CODM is on a least a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Data subscriptions	provision of financial market data and analysis tools for sophisticated traders
Broking	provision of execution only, online trading
Corporate advisory	provision of capital markets advice and related services

All products and services are provided predominantly to customers in Australia.

Intersegment transactions

Intersegment transactions were made at cost. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Notes to the Financial Statements

Note 3. Operating Segments (continued)

	Data Subscriptions	Broking	Corporate Advisory	Consolidated
2011	\$	\$	\$	\$
Revenue	3,864,505	1,945,519	1,629,853	7,448,877
Segment result	596,682	(1,143,462)	395,873	(150,907)
Depreciation and amortisation	(114,590)	(41,028)	(6,274)	(161,892)
Impairment	(995,288)	-	-	(995,288)
Interest revenue	11,623	9,299	2,325	23,247
Finance costs	(1,977)	(1,581)	(395)	(3,953)
Income tax expense	-	-	-	-
Loss after income tax expense	(503,550)	(1,176,772)	391,529	(1,288,793)
Assets				
Segment assets	3,239,589	785,820	732,895	4,758,304
Total assets				4,758,304
Acquisition of non-current assets	334,733	238,381	-	573,114
Liabilities				
Segment liabilities	1,434,389	387,527	14,301	1,836,217
Total liabilities				1,836,217

	Data Subscriptions	Broking	Corporate Advisory	Consolidated
2010	\$	\$	\$	\$
Revenue	4,615,721	1,481,019	-	6,096,740
Segment result	1,458,680	(1,425,567)	(316,076)	(282,963)
Depreciation and amortisation	(55,571)	(32,417)	(4,631)	(92,619)
Impairment	(2,500)	-	-	(2,500)
Interest revenue	35,805	-	-	35,805
Finance costs	(3,432)	(3,088)	(343)	(6,863)
Income tax expense	-	-	-	-
Loss after income tax expense	1,432,982	(1,461,072)	(321,050)	(349,140)
Assets				
Segment assets	4,323,029	202,692	25,254	4,550,975
Total assets				4,550,975
Acquisition of non-current assets	767,872	-	-	767,872
Liabilities				
Segment liabilities	1,357,830	201,928	212	1,559,970
Total liabilities				1,559,970

Notes to the Financial Statements

Note 4. Revenue

	Consolidated	
	2011	2010
	\$	\$
Continuing Operations		
Data subscriptions fees	4,025,367	4,745,631
Brokerage and commissions revenue	1,690,270	1,306,361
Corporate advisory fees	923,240	-
	6,638,877	6,051,992
<i>Other revenue</i>		
Interest	23,247	35,805
Net fair value gain on other financial investments	696,788	-
Other	89,965	8,943
	810,000	44,748
	7,448,877	6,096,740

Note 5. Expenses

Loss before income tax includes the following specific expenses:

<i>Employee benefits expense</i>		
Wages and salaries	1,929,574	1,859,194
Other employment costs	145,851	220,152
Expense of share based payments	45,384	26,000
	2,120,809	2,105,346
<i>Depreciation</i>		
Plant and equipment	69,682	88,639
Leasehold improvements	16,411	3,980
	86,093	92,619
<i>Amortisation</i>		
Software development	54,623	-
Websites	3,676	-
	58,299	-
<i>Impairment</i>		
Goodwill	995,288	-
Websites	17,500	2,500
	1,012,788	2,500
Total depreciation, amortisation and impairment	1,157,180	95,119
<i>Rental expense on operating leases</i>		
Property lease	188,750	278,233
<i>Finance costs</i>		
Interest paid/payable	3,953	2,321

Notes to the Financial Statements

Note 6. Income Tax Expense

	Consolidated	
	2011	2010
	\$	\$
<i>Income tax expense</i>		
Current tax	-	-
	-	-
<i>Numerical reconciliation of income tax expense to prima facie income tax payable</i>		
Loss before income tax from continuing operations	1,288,793	349,140
Tax at the Australian rate of 30%	(386,638)	(104,742)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
- Impairment of goodwill	298,586	-
- share based payments	13,915	-
- black-hole expenditure	(10,116)	(72,105)
- unrealised gain on investments	(209,646)	-
- sundry items	8,509	(90,760)
Current year tax losses not recognised	285,390	267,607
Income tax expense	-	-
<i>Tax losses</i>		
Unused tax losses for which no deferred tax asset has been recognised	7,434,327	6,483,024
Potential tax benefit @30%	2,230,298	1,944,907

Notes to the Financial Statements

Note 7. Cash and Cash Equivalents

	Note	Consolidated	
		2011	2010
		\$	\$
Current			
Cash at bank and on hand		892,338	870,166
<i>Reconciliation to cash and cash equivalents at the end of the financial year</i>			
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:			
Balance as per statement of cash flows		892,338	870,166

Note 8. Trade and Other Receivables

	Note	Consolidated	
		2011	2010
		\$	\$
Current			
Trade receivables		297,228	117,095
Allowance for doubtful debts		(30,797)	-
		266,431	117,095
Other receivables		109,626	126,686
		376,057	243,781

Impairment of receivables

The company has recognised a loss of \$30,797 (2010: Nil) in profit or loss in respect of impairment of receivables for the year ended 30 June 2011.

The ageing of the impaired receivables recognised above are as follows:

	Note	Consolidated	
		2011	2010
		\$	\$
1 to 30 days overdue		-	-
31 to 60 days overdue		-	-
Over 60 days overdue		30,797	-
		30,797	-

Notes to the Financial Statements

Note 8. Trade and Other Receivables (continued)

Movements in the provision for impairment of receivables are as follows:

	Note	Consolidated	
		2011	2010
		\$	\$
Opening balance		-	20,000
Additional provisions recognised		30,797	-
Unused amounts reversed		-	(20,000)
Closing balance		30,797	-

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$52,110 as at 30 June 2011 (\$23,230 as at 30 June 2010). The consolidated entity did not consider a credit risk on the aggregate balances after reviewing agency credit information and credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	Note	Consolidated	
		2011	2010
		\$	\$
1 to 30 days overdue		7,568	5,995
31 to 60 days overdue		31,961	6,116
Over 60 days overdue		12,581	11,119
		52,110	23,230

Note 9. Financial assets at fair value through profit or loss

	Note	2011		2010	
		\$	\$	\$	\$
Current					
Ordinary shares - held for trading		65,698	10,500		
		65,698	10,500		
<i>Reconciliation</i>					
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:					
Opening fair value		10,500	-		
Additions		75,550	-		
Disposals		(30,000)	-		
Revaluation increments to fair value		9,648	10,500		
Closing fair value		65,698	10,500		

Notes to the Financial Statements

Note 9. Financial assets at fair value through profit or loss (continued)

	Consolidated	
	2011	2010
	\$	\$
Non-current		
Unlisted options – designated at fair value through profit or loss	694,640	-
Share in other corporations – available for sale	152	7,652
	694,792	7,652
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	7,652	152
Additions	694,640	7,500
Revaluation increments to fair value	(7,500)	-
Closing fair value	694,792	7,652

Unlisted options held by the company, being options over ordinary shares of an Australian company whose shares are listed on the Australian Securities Exchange, are restricted securities and subject to escrow until 28 February 2013. The options may be exercised at any time up to 28 February 2014.

Note 10. Other Assets

	Consolidated	
	2011	2010
	\$	\$
Current		
Prepayments	58,010	126,981
Non-current		
Bonds and guarantees	124,673	161,093

Note 11. Plant and Equipment

	Consolidated	
	2011	2010
	\$	\$
Non-current		
Plant and equipment – at cost	502,127	487,376
Accumulated depreciation	(385,616)	(330,167)
	116,511	157,209
Leasehold improvements – at cost	42,471	42,471
Accumulated depreciation	(17,854)	(1,443)
	24,617	41,028
Total plant and equipment – net book value	141,128	198,237

Notes to the Financial Statements

Note 11. Plant and Equipment (continued)

Reconciliations

Reconciliation of the carrying amount of plant and equipment at the beginning and end of the current financial year

	Plant and equipment	Leasehold improvements	Total
	\$	\$	\$
Consolidated			
Balance at 1 July 2009	240,198	16,916	257,114
Additions	78,044	44,971	123,015
Disposals	(72,394)	(16,879)	(89,273)
Depreciation	(88,639)	(3,980)	(92,619)
Balance at 30 June 2010	157,209	41,028	198,237
Additions	28,984	-	28,984
Depreciation	(69,682)	(16,411)	(86,093)
Balance at 30 June 2011	116,511	24,617	141,128

Note 12. Intangible Assets

	Consolidated	
	2011	2010
	\$	\$
Non-current		
Goodwill		
Cost	2,056,120	2,056,120
Accumulated impairment losses	(995,288)	-
	1,060,832	2,056,120
Websites		
Cost	38,381	20,000
Accumulated impairment	(20,000)	(2,500)
Accumulated amortisation	(3,676)	-
	14,705	17,500
Software development		
Cost	1,164,694	858,945
Accumulated impairment losses	(54,623)	-
	1,110,071	858,945
Other intangible assets		
Cost	220,000	-
Accumulated amortisation	-	-
	220,000	-
Total intangibles	2,405,608	2,932,565

Notes to the Financial Statements

Note 12. Intangible assets (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill	Websites	Software Development Assets	Other Intangible Assets	Total
	\$	\$	\$	\$	\$
Consolidated					
Balance at 1 July 2009	2,056,120	20,000	214,088	-	2,290,208
Amortisation	-	(2,500)	-	-	(2,500)
Internal development	-	-	644,857	-	644,857
Balance at 30 June 2010	2,056,120	17,500	858,945	-	2,932,565
Acquisition through business combinations	-	-	-	150,000	150,000
Client list	-	-	-	70,000	70,000
Impairment	(995,288)	(17,500)	-	-	(1,012,788)
Amortisation	-	(3,676)	(54,623)	-	(58,299)
Internal development	-	18,381	305,749	-	324,130
Balance at 30 June 2011	1,060,832	14,705	1,110,071	220,000	2,405,608

Impairment testing

Goodwill acquired through business combinations has been allocated to the following cash generating units:

	Consolidated	
	2011	2010
	\$	\$
Data subscriptions segment	1,060,832	2,056,120
	1,060,832	2,056,120

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 12 month projection period approved by management and extrapolated for a further 4 years by using a steady rate, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for the Data Subscriptions division:

- 12% (2010: 15%) pre-tax discount rate; and,
- 10% (2010: 5%) per annum projected revenue growth rate.

The discount rate of 12% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the risk free rate and the volatility of the share price relative to market movements.

Management believes the projected 10% decline in revenue growth is prudent and justified, based on the general decline in subscriber numbers and actions being taken to rectify that. Management have not included an increase in operating costs in their estimation based on an expectation that costs will be contained.

There were no other key assumptions for the data subscriptions division.

Notes to the Financial Statements

Note 12. Intangible assets (continued)

Based on the above, an impairment of \$995,288 has been applied as the carrying amount of goodwill exceeded its recoverable amount for the data subscriptions division.

An unfavourable change in any of the assumptions underlying the discounted cash flow model used will require the carrying value of goodwill to be further impaired.

Websites

Websites are amortised on a straight-line basis over a period of two to five years.

Software development assets

Software development relates to the Data Subscriptions segment and is amortised on a straight-line basis over the period of the useful life of the underlying asset, which is currently estimated to be 10 years commencing 1 January 2011.

Other intangible assets

ASX membership

The cost of acquiring D2MX Pty Ltd's market participant status of the Australian Securities Exchange will be amortised over a period of five years commencing from the time that the Group's existing third-party execution facilities are transferred to D2MX Pty Ltd in August 2011.

Client list

The client list was acquired by the Group from the MINC Financial Services group. The client list has a finite life considered to be five years to be amortised on a straight-line basis from 1 July 2011.

Note 13. Trade and Other Payables

	Consolidated	
	2011	2010
	\$	\$
Current		
Trade payables	668,535	483,556
Other payables	149,830	105,457
Accruals	309,453	231,978
	1,217,818	820,991

Note 14. Deferred Income

Current		
Deferred income	494,151	562,104
	494,151	562,104

Deferred income, classified as current, consists of customer subscription fees paid in advance for the provision of services expected to be earned over the next 12 months.

Notes to the Financial Statements

Note 15. Employee Benefits

	Consolidated	
	2011	2010
	\$	\$
Current		
Liability for annual leave	112,998	96,735
Liability for long service leave	83,085	68,348
	196,083	165,083

Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months.

The following amounts reflect leave that although classified as current in accordance with accounting standards is not expected to be taken within the next 12 months:

	Consolidated	
	2011	2010
	\$	\$
Long service leave obligation expected to be settled after 12 months	83,085	68,348

Non-current		
Liability for long service leave	18,165	11,792

Note 16. Equity - contributed

312,311,011 (2010: 250,396,612) Fully Paid Ordinary shares	21,845,146	20,671,655
12,500,000 (2010: 77,100,000) Unlisted options	-	-
	21,845,146	20,671,655

Notes to the Financial Statements

Note 16. Equity - contributed

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$
Balance	1 July 2009	175,296,612		19,169,655
Issue of shares	30 October 2009	66,000,000	\$0.020	1,320,000
Issue of shares	29 January 2010	9,100,000	\$0.020	182,000
Balance	30 June 2010	250,396,612		20,671,655
Shares bought back	31 August 2010	(1,668,804)	\$0.024	(40,051)
Issue of share to employee share scheme	17 September 2010	583,203	\$0.024	13,997
Issue of shares	1 March 2011	37,000,000	\$0.020	740,000
Issue of shares	15 April 2011	8,000,000	\$0.020	160,000
Issue of shares	27 May 2011	18,000,000	\$0.020	360,000
Share issue transaction costs				(60,455)
Balance	30 June-2011	312,311,011		21,845,146

Ordinary shares

Ordinary shares have the right to receive dividends as declared, and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company. The shares have no par value.

Share buy-back

There is no current on-market share buy-back.

On 18 June 2010 the Directors announced that the Company would commence the process for the buy-back of ordinary shares from shareholders holding less than a "marketable parcel" (defined in the ASX Listing Rules as a parcel of securities of not less than \$500 in value). The closing date of the buy-back was 30 July 2010. On 30 August 2010 the company bought back and cancelled 1,668,804 ordinary shares for a total cost of \$40,051.

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns to shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing business in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these are given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2010 Annual Report.

Notes to the Financial Statements

Note 17. Equity – reserves

	Consolidated	
	2011	2010
	\$	\$
Share based payments	46,384	3,080
	46,384	3,080
Movement:		
<i>Share based payments</i>		
Balance at the beginning of the financial year	3,080	3,080
Option expense	46,384	-
Transfer to accumulated losses	(3,080)	-
Balance at the end of the financial year	46,384	3,080

Note 18. Equity – accumulated losses

Accumulated losses at the beginning of the financial year	17,683,730	17,120,265
Loss after income tax expense for the year	1,288,793	345,052
Acquired non-controlling interest	-	218,413
Transfer from share based payments reserve	(3,080)	-
Accumulated losses at the end of the financial year	18,969,443	17,683,730

Note 19. Equity – dividends

<i>Dividends</i>		
No dividends have been paid or declared during 2011 (2010: Nil)		
<i>Franking credits</i>		
Franking credits available at the reporting date based on a tax rate of 30%	1,422,418	1,422,418

Note 20. Financial Risk Management

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance' under policies approved by the Board of Directors ('Board')). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity is not exposed to any significant foreign currency risk.

Notes to the Financial Statements

Note 20. Financial Instruments (continued)

Price risk

The consolidated entity is exposed to price risk in relation to the valuation of financial assets at fair value through profit or loss. A 10% movement in the valuation of unlisted options would result in a profit or loss of \$69,464.

Interest rate risk

The consolidated entity is not exposed to any significant interest rate risk.

Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The Board of Directors has established a credit policy under which each new customer is analysed individually. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and note to the financial statements. The consolidated entity does not hold any collateral.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following table details the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate %	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
2011						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	668,535	-	-	-	668,535
		668,535	-	-	-	668,535

	Weighted average interest rate %	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
2010						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	483,556	-	-	-	483,556
		483,556	-	-	-	483,556

Trade payables are due normally within 60 days. The cash flows in the maturity analysis above are not expected to occur significantly earlier than disclosed.

Notes to the Financial Statements

Note 20. Financial Instruments (continued)

Fair value of financial instruments

The following table details the consolidated entity's fair values of financial instruments categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
2011				
Assets				
Listed ordinary shares	65,698	-	-	65,698
Unlisted ordinary shares	-	-	152	152
Unlisted options	-	694,640	-	694,640
	65,698	694,640	152	760,490

	Level 1	Level 2	Level 3	Total
2010				
Assets				
Listed ordinary shares	10,500	-	-	10,500
Unlisted ordinary shares	-	-	7,652	7,652
	10,500	-	7,652	18,152

There were no transfers between levels during the financial year.

Movements in level 3 financial instruments

Movements in level 3 financial instruments during the current and previous financial year are set out as follows

	Available-for sale	Total
	\$	\$
Consolidated - 2011		
Balance at 1 July 2009	152	152
Purchases	7,500	7,500
Balance at 30 June 2010	7,652	7,652
Impairment	(7,500)	(7,500)
Balance at 30 June 2011	152	152

Changing one or more inputs would not significantly change the fair value of level 3 financial instruments.

Unless otherwise stated, the carrying amounts of financial assets reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Notes to the Financial Statements

Note 21. Key management personnel disclosures

Directors

The following persons were directors of MDS Financial Group Limited during the financial year:

Mr Sean Peter Rothsey	Non-Executive Chairman
Ms Jaime Gee Choo Khoo	Non-Executive Director (commenced 28 February 2011)
Mr Wayne Noel Johnson	Executive Deputy Chairman (commenced 20 May 2011)
Mr Damian Wayne Isbister	CEO Corporate and Trading
Mr Bruce Richard Sydney Symon	CEO Software

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

Mr Thomas Patrick Boland	CEO D2MX Pty Ltd (commenced 1 April 2011)
Mr Craig Bradley Foley	Chief Information Officer
Mr Anthony John Iremonger	Chief Financial Officer and Company Secretary

Remuneration

The aggregate remuneration made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2011	2010
	\$	\$
Short-term employee benefits	627,771	564,062
Post employment benefits	58,540	49,926
Share-based payments	47,384	-
	733,695	613,988

Shareholding

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties is set out below

30 June 2011	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
S Rothsey	15,743,688	-	750,000	-	15,743,688
W Johnson*	16,115,199	-	1,500,000	-	17,615,199
J Khoo*	-	-	-	-	-
D Isbister	26,326,632	-	-	-	26,326,632
R Symon	27,045,000	-	1,500,000	-	28,545,000
T Boland*	1,000,000	-	41,667	-	1,441,667
C Foley	72,575	41,667	-	-	114,242
A Iremonger	13,000,000	-	-	-	13,000,000
	99,303,094	41,667	4,191,667	-	102,786,428

* Commenced as a Key Management Personnel during the 2011 year.

Notes to the Financial Statements

Note 21. Key management personnel disclosures (continued)

30 June 2010	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
S Rothsey	15,743,688	-	-	-	15,743,688
D Isbister	1,326,632	-	25,000,000	-	26,326,632
R Symon	2,045,000	-	25,000,000	-	27,045,000
C Foley	72,575	-	-	-	72,575
A Iremonger	1,500,000	-	11,500,000	-	13,000,000
	20,687,895	-	61,500,000	-	82,187,895

Option holding

The number of options over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

30 June 2011	Balance at the start of the year	Granted as remuneration during the year	Expired during the year	Acquired during the year	Balance at the end of the year	Vested during the year	Vested and exercisable	Vested and unexercisable
D Isbister	-	-	(27,000,000)	-	-	-	-	-
A Iremonger	-	-	(10,000,000)	-	-	-	-	-
R Symon	-	-	(25,000,000)	-	-	-	-	-
W Johnson	-	-	-	-	-	12,500,000	12,500,000	-
			(62,000,000)	-	-	12,500,000	12,500,000	-

30 June 2010	Balance at the start of the year	Granted as remuneration during the year	Expired during the year	Acquired during the year	Balance at the end of the year	Vested during the year	Vested and exercisable	Vested and unexercisable
D Isbister	2,000,000	-	-	25,000,000	27,000,000	25,000,000	27,000,000	-
A Iremonger	-	-	-	10,000,000	10,000,000	10,000,000	10,000,000	-
R Symon	-	-	-	25,000,000	25,000,000	25,000,000	25,000,000	-
	2,000,000	-	-	60,000,000	62,000,000	60,000,000	62,000,000	-

Receivable from and payable to key management personnel

The following balances are outstanding at the reporting date in relation to remuneration arrangements with key management personnel:

	Consolidated	
	2011	2010
	\$	\$
Trade payables to Noblemen Ventures Pty Ltd (director-related entity of Mr Wayne Johnson)	30,800	-
Trade payables to Symon Financial Services Pty Ltd (director related entity of Mr Richard Symon)	11,000	11,000

Related party transactions

Related party transactions are set out in note 25

Notes to the Financial Statements

Note 22. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PKF, the auditor of the company, and its related practices:

	Consolidated	
	2011	2010
	\$	\$
<i>Audit services</i>		
Audit or review of the financial report	54,800	54,000
Audit of Australian Financial Services Licences	9,000	6,000
<i>Other services</i>		
Preparation of the tax return	11,500	-
Other tax services	12,275	3,422
	87,575	63,422

Note 23. Contingent liabilities

Contingent liabilities

The consolidated entity has given bank guarantees as at 30 June 2011 of \$74,673 (2010: \$74,673) to its landlord and \$50,000 (2010: \$50,000), in relation to credit facilities, to its bankers.

Note 24. Commitments for expenditure

	Consolidated	
	2011	2010
	\$	\$
Less than one year	341,650	188,750
Between one and five years	647,710	795,560
More than five years	-	-
	989,360	984,310

Commitments relate to the lease of the Group's Melbourne premises and computer data centre. The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that minimum lease payments shall be increased by 4% per annum. Rental of the data centre is for a renewable 12 month period.

Notes to the Financial Statements

Note 25. Related Party Transactions

Parent entity

MDS Financial Group Limited is the parent entity. Various corporate costs are incurred by the parent entity and subsidiaries that are recharged between companies within the group at cost

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 21 and the remuneration report in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2011	2010
	\$	\$
Payment for minority interest in subsidiary to BoxRed Pty Ltd (director related entity of Sean Rothsey) - refer Note 27	-	214,544

Receivable from and payable to related parties

There were no receivables from or payable to related parties at reporting date in relation to transactions with related parties detailed above.

Loans to/from related parties

There were no loans for or from related parties at the reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates

Note 26. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of comprehensive income

	Parent	
	2011	2010
	\$	\$
Loss after tax	(1,326,881)	(320,553)
Total comprehensive income	(1,326,881)	(320,553)

Notes to the Financial Statements

Note 26. Parent entity information (continued)

Statement of financial position

	Parent	
	2011	2010
	\$	\$
Total current assets	454,690	680,041
Total assets	3,018,144	2,331,834
Total current liabilities	177,823	68,838
Total liabilities	549,246	367,132
Total equity	2,468,898	2,575,905
Equity		
Contributed equity	53,524,081	52,350,590
Reserves	46,384	3,080
Accumulated losses	(51,101,567)	(49,777,765)
Total equity	2,468,898	2,575,905

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2011 and 30 June 2010.

Capital commitments – Property, Plant and equipment

The parent entity had no capital commitments for property plant and equipment as at 30 June 2011 and 30 June 2010.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment.
- Investments in associated are accounted for at cost, less any impairment.

Note 27. Business combinations

On 1 April 2011 MDS Financial Group Limited acquired 100% of the issued shares of D2MX Pty Ltd for a total consideration transferred of \$150,000. The company, having previously sold its underlying business (comprising its client lists and various other assets), was acquired for the value of its intellectual property including its Australian Financial Services Licence and participant membership of the Australian Securities Exchange Limited ("ASX Licence"). It was acquired to facilitate the growth of the consolidated entity's Broking segment and to achieve costs savings and synergies by eliminating reliance on third-party execution of trades on the ASX. The acquired business' licences have been fair-valued at \$150,000. The acquired business contributed revenues of \$88,574 and a loss after tax of \$10,149 for the period from 1 April 2011 to 30 June 2011.

Notes to the Financial Statements

Note 30. Reconciliation of loss after income tax to net cash from operating activities

	Consolidated	
	2011	2010
	\$	\$
(a) Reconciliation of loss for the year to net cash flow used in operating activities		
Loss for the year	(1,288,793)	(349,140)
Non-cash flows in operating loss		
Depreciation, amortisation and impairment	1,157,180	92,619
Fair value adjustment on investments	(696,788)	(10,500)
Capitalised Development costs	-	(24,940)
Loss on disposal of plant and equipment	-	89,273
Net financing income	-	(35,805)
Share based payments expense	46,384	-
Investments acquired for non-cash consideration	(40,000)	-
Changes in working capital and provisions		
(Increase)/decrease in trade and other receivables	(132,276)	235,154
Decrease/(increase) in other assets	68,971	(4,277)
Increase/(decrease) in trade and other creditors	306,827	(319,849)
Decrease in deferred income	(67,953)	(29,519)
Increase/(decrease) in provisions for employee benefits	37,373	(16,004)
Net cash used in operating activities	(609,075)	(372,988)

Note 31. Non-cash investing and financing activities

	Consolidated	
	2011	2010
	\$	\$
Acquisition of financial assets at fair value through profit or loss as fee income	40,000	-

Notes to the Financial Statements

Note 32. Earnings per share

	Consolidated	
	2011	2010
	\$	\$
Earnings per share from continuing operations		
Loss after income tax	1,288,793	349,410
Non-controlling interest	-	(4,088)
Loss after income tax attributable to the owners of MDS Financial Group Limited	1,288,793	345,322
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	265,071,900	223,025,927
Adjustments for calculation of ordinary shares used in calculating basic earnings per share:		
Options*	-	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	265,071,900	223,025,927
	Cents	Cents
Basic earnings per share	(0.486)	(0.157)
Diluted earnings per share	(0.486)	(0.157)

*Options to acquire ordinary shares are not considered dilutive as the exercise of the options would decrease the basic loss per share.

Note 33. Share based payments

A share option plan has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may, at the discretion of the Nomination and Remuneration Committee, grant options over ordinary shares in the parent entity to certain key management personnel of the consolidated entity. The options, which vest immediately, are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

Set out below are summaries of options granted under the plan:

2011							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
18/05/11	30/06/13	\$0.05	-	12,500,000	-	-	12,500,000
27/11/08	27/11/10	\$0.05	2,000,000	-	-	(2,000,000)	-

Notes to the Financial Statements

Note 33. Share based payments (continued)

2010							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
27/11/08	27/11//10	\$0.05	2,000,000	-	-	-	2,000,000

The average remaining contractual life of options outstanding at the end of the financial year was 2.0 years (2010: 0.41 years).

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
18/05/11	30/06/13	\$0.02	\$0.05	60.0%	0.00%	4.65%	\$0.00371

Employee share scheme

A share plan has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may issue shares to employees for no cash consideration. All Australian resident permanent employees (excluding executive directors) who have been continuously employed by the group for a period of at least one year are eligible to participate in the scheme. Employees may elect not to participate in the scheme.

The scheme is administered by Trinity Management Group Pty Ltd, an unrelated third-party. The scheme's Trustee is Trinity Management Pty Ltd.

Shares issued by the trust to the employees may be acquired on-market prior to the issue or issued as new shares by the parent entity.

Under the scheme, eligible employees may be granted up to \$1,000 worth of fully paid ordinary shares in MDS Financial Group Limited annually for no cash consideration. The market value of shares issued under the scheme, measured as the weighted average price at which the company's shares are traded on the ASX during the week up to and including the grant, is recognised as part of employee benefit costs in the period the shares are granted.

Offers under the scheme are at the discretion of the company.

Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment by the group. In all other respects the shares rank equally with other fully-paid ordinary shares on issue (refer to note 16).

The number of shares issued to participants in the scheme is the offer amount divided by the weighted average price at which the company's shares are traded on the ASX during the week up to and including the date of the grant.

Where shares are issued to employees of subsidiaries within the group, the subsidiaries compensate MDS Financial Group Limited for the fair value of these shares.

	Consolidated	
	2011	2010
Number of shares issued under the plan to participating employees on 17 September 2010	1,083,342	-

Each participant was issued with shares worth \$1,000 based on the weighted average market price of \$0.024.

The number of shares issued under the plan included 41,667 shares issued to key management personnel as identified in key management personnel disclosures (note 21) and the remuneration report in the directors' report.

Directors' Declaration

In the directors' opinion

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

The directors have been given the declarations required by section 259A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors



Sean Peter Rothsey
Deputy Chairman

Melbourne
30 September 2011

Report on the Financial Report

We have audited the accompanying financial report of MDS Financial Group Limited, which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration of MDS Financial Group Limited (the Company) and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of MDS Financial Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also complies with International Financial Reporting Standards as disclosed in Note 1.

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INDEPENDENT AUDITOR'S REPORT (CONT'D) TO THE MEMBERS OF MDS FINANCIAL GROUP LIMITED

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of \$1,288,793 during the year ended 30 June 2011 and as of that date, the consolidated entity had negative cash flow from operating cash flows of \$606,075. At balance date the consolidated entity has a net current asset deficiency of \$425,949. These conditions, along with other matters as set forth in Note 1(b), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in or pages 26 to 28 of the directors' report for the year ended 30 June 2011. 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 MDS Financial Group Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Acts 2001*.

PKF

PKF

30 September 2011
Melbourne



D J Garvey
Partner

Additional ASX Information (un-audited)

SHARE HOLDER INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report. This additional information was applicable as at 21 September 2011.

1. Top 20 Shareholders

The names of the twenty largest shareholders of each class of listed securities are listed below:

Rank	Name	Units	% of Units
1.	MR RICHARD SYMON	25,750,000	8.24
2.	HKM INVESTMENTS PTY LTD <ISBISTER FAMILY A/C>	25,000,000	8.00
3.	CITICORP NOMINEES PTY LIMITED	24,410,000	7.82
4.	GLOBAL EQUITY MANAGEMENT PTY LTD	21,422,361	6.86
5.	ALUN STEVENS & ASSOCIATES PTY LTD <THE STEVENS FAMILY A/C>	20,923,737	6.70
6.	MS LOETITIA HENRIETTE TIBI	20,048,300	6.42
7.	MERKIN MANAGEMENT PTY LTD <ROTHSEY SUPER FUND A/C>	16,493,688	5.28
8.	BARODA HILL INVESTMENTS LIMITED	15,696,000	5.03
9.	MR YIH PEIR JEFFREY HING + MS BEI KEEN WONG	15,000,000	4.80
10.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	15,000,000	4.80
11.	FINICO PTY LIMITED	13,454,506	4.31
12.	MR ANTHONY JOHN IREMONGER + MS JIAN FANG SUN	10,000,000	3.20
13.	MR STEPHEN JOHN BRADY + MRS SEBASTIANA DIANA BRADY <S & D BRADY FAMILY A/C>	8,463,554	2.71
14.	LEON HINDE	6,522,361	2.09
15.	MR STIVEN RAZMOVSKI + MRS TRAJANKA RAZMOVSKI <THE RAZZ A/C>	5,862,552	1.88
16.	BETHCORP PTY LTD <JONIC INV P/L S/F A/C>	5,700,000	1.83
17.	MS LAY KEE TAY	5,553,700	1.78
18.	MR MING CHEN	4,114,200	1.32
19.	MAKERA SUPER PTY LTD <MAKERA SUPER FUND A/C>	3,200,000	1.02
20.	MR ANTHONY JOHN IREMONGER + MS JIAN FANG SUN <JIANAJI SUPER FUND A/C>	3,000,000	0.96
Totals: Top 20 holders of ISSUED CAPITAL		265,614,959	85.05
Total Remaining Holders Balance		46,696,052	14.95

Additional ASX Information (un-audited)

2. Distribution of equity securities

Analysis of ordinary shareholders by size of holding:

Range	Number of Shareholders
1 - 500	24
501 – 1,000	3
1,001 – 5,000	5
5,001 – 10,000	20
10,001 – 100,000	118
100,001 and over	79
TOTAL	249

3. Restricted Securities

There are no restricted securities on issue.

4. Voting Rights

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

- (α) at meetings of members, each member is entitled to vote in person or by proxy, attorney or representative; and,
- (β) on a show of hands, every person present who is a member has one vote, and on a poll every member present has a vote for each fully paid share owned.

There are no voting rights attached to un-listed ordinary shares or unlisted options, voting rights will be attached to un-listed ordinary shares once issued and to options upon exercise.

5. On-market Buy Back

There is no current on-market buy back.

6. Review of Operations

A review of operations for the Group is set out on pages 5 to 9 of this annual report, commencing with the Chairman's Report.

Directory

Company Directors	
Mr Sean Peter Rothsey	Non-Executive Chairman
Ms Jamie Gee Choo Khoo	Non-Executive Director
Mr Wayne Noel Johnson	Executive Director and Deputy Chairman
Mr Damian Wayne Isbister	Executive Director and Chief Executive Officer –Trading
Mr Bruce Richard Sydney Symon	Executive Director and Chief Executive Officer - Software
Company Secretary	
Mr Anthony John Iremonger	
Registered Office	
Level 37, Rialto South Tower 525 Collins Street Melbourne VIC 3000 Telephone: + 61 3 9617 0600 Facsimile: + 61 3 9617 0699	
Share Registry	
Computershare Limited Yarra Falls 452 Johnston Street Abbotsford VIC 3067	
Bankers	
National Australia Bank 330 Collins Street Melbourne VIC 3000	
Westpac Banking Corporation Royal Exchange Cnr Pitt & Bridge Streets Sydney NSW 2000	
Auditor	
PKF 140 William Street Melbourne VIC 3000	
Securities Exchange	The company's securities are quoted on the official list of the Australian Securities Exchange Limited, the home branch being Melbourne.
ASX Code	MWS MDS Financial Group Limited is a public company limited by shares incorporated and domiciled in Australia

