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CHAIRMAN'S STATEMENT

“The company ... reported for the first time positive operating profit and positive operating cash flows for the full year.”

The 2010-year has been an encouraging year for engin. The Company completed its network migration, continued to grow its customer base, and reported for the first time positive operating profit and positive operating cash flows for the full year.

Last year the company undertook significant structural change to reduce its cost base and made substantial changes to its operations. I am pleased to confirm that these changes had the desired effect, leaving engin in a financially sound position with a strong platform for future growth.

It gives me satisfaction to present this 2010 annual report to shareholders and I look forward to your ongoing support of the company.

GROWTH IN REVENUE AND PROFITABILITY

The Gross Revenue and Gross Profit for the year were \$20.9M (2008/9: \$20.2M) and \$12.9M (2008/9: \$11.7M) an increase of 3.6% and 10.4% respectively. The revenue increase is due to continued VoIP and DSL subscriber growth and the launch of engin's Hosted Phone System and SIP Trunking services.

FINANCIAL PERFORMANCE

The company delivered a positive Operating Profit (EBITDA) for full year \$0.7M, which was a strong turnaround from the loss of \$1.5M in the previous year. 2010 also saw the company generate net positive cash flows, ending the year with \$4.6m of cash, up \$0.3m on the prior year – this result includes operating cash flows of \$0.7m – an improvement of \$2.0m on the prior year operating cash outflow of (\$1.3m).

COST MANAGEMENT

Cost reduction was a focus for the management team in the previous year and this cost management strength continued during the 09/10 fiscal year. During the year the

management team achieved strong results in lifting gross margin by 10.4% and reducing operating costs by a further 6% vs. 2009/10. In addition to its strong focus on costs, the management team has continued to drive Subscriber and Revenue growth with a broad range of product, service and plan initiatives.

FUTURE GROWTH

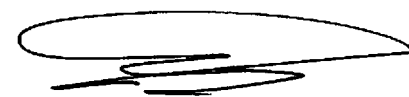
Ongoing changes within the Telecommunications industry will provide both challenges and opportunities for engin. As Internet Protocol (IP) services become more prevalent, engin can now capitalise on the growth opportunities that are likely to emerge.

By virtue of the recent improvements to the engin Voice network solution, together with the structural and operational work done over the past two years, the company is now, better than ever, positioned to take advantage of these industry changes. I am confident that 2011 will see further improvements in engin's competitive position within its selected target markets.

BOARD AND MANAGEMENT

I would like to thank the Management Team at engin for their continued energy and enthusiasm for the company and their leadership during this new phase of engin's growth. I also thank my fellow Directors for their contribution.

Finally, the Board wishes to welcome Charles Solomon (CEO), Martin Mercer and Tim Howard to the Board and thank Rohan Lund for his valuable contribution over the last three and half years.



Ian Smith
Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

Fiscal year 2010 was a very successful year for engin with operating and financial performance gaining momentum. In addition to posting record EBITDA, the Company was also cash flow positive for the full year. This achievement validates the changes made to the Company over the last two years and is testament to the strength and commitment of the management and staff. Changes to the company structure, operations and focus over the last two years, despite the difficult economic environment, have delivered a strong and vibrant company with much improved prospects.

KEY ACHIEVEMENTS

- Positive Operating Profit (EBITDA) of \$0.7M
- Positive Operating Cash-flow of \$0.4M
- Subscriber growth of 4.5% vs. FY09
- Launch of Hosted Phone System with more than 1,000 services active at year end

FINANCIAL PERFORMANCE

- Total revenue of \$20.9 million, an increase of 3.6% on FY09
- Gross Margin of \$12.9M, an improvement of 10.4% on FY09
- Reduction in Operating Expenses of 6% vs. FY09 to \$12.2M
- Profit/(loss) Before Income Tax of (\$2.4M) an improvement \$4.4M on FY09

COMPANY OPERATIONS

engin's continued focus on new products, improved customer service and innovative subscriber plans continued to drive performance and delivered increased subscriber numbers. A key driver behind this strong performance has been the growth and demand for small/medium business telephony services.

The successful launch of new product offerings including the new Hosted Phone System and SIP Trunking products have produced substantial growth in the SME segment. The growth rate of engin's Hosted Phone System is exceptionally

strong as business customers recognised the advantages of not having to make large upfront capital outlays on PBX equipment, while they still enjoy a comprehensive range of PBX-style features. engin now has over 1,000 Hosted Phone System services in operation.

KEY FOCUS AREAS FOR THE BUSINESS DURING FY10 WERE:

Cost reduction

During FY10 the company maintained its focus on cost reduction and achieved a further reduction in Operating Expenses of 6% and a reduction in Cost of Sales of 6%. These actions combined with growth in Subscriber numbers and Revenue resulted in a full year Operating Profit and positive full year Operating Cash Flows for the first time in engin's history.

Service delivery and Customer Service Excellence

engin continues to make improvements to its customer support systems including web-based chat support service, correspondence and queue management to deliver high standards of customer support. A continued focus on system improvements and support training are resulting in high levels of customer service delivery and overall customer satisfaction measured through Customer Satisfaction Surveys and Net Promoter Score.

Further streamlining of engin's internal systems and processes combined with continued focus on Customer Service excellence saw Customer Satisfaction levels above 90% being consistently achieved.

Product and Service Development

During the year the company successfully migrated its customer base to a new Voice Network, which is feature rich and fully scalable. This migration was carried out with minimal disruption to customers' services.

The new network has enabled engin to launch advanced Business VoIP products such as Hosted Phone System and SIP Trunking. engin now has a full and comprehensive suite of VoIP products to cater to both Residential and SME markets.

engin plans further new product development for both the Residential and Business markets, which will provide a solid platform for Subscriber and Revenue growth in FY11.

OUTLOOK

The positive momentum that engin generated in FY09 has continued into FY10, and together with the changes made across the Company, we anticipate further growth and improvement across the key indicators.

engin will continue to focus on delivering profitable growth through growth in services in operation, cost control and ongoing delivery of value to its customers through innovative products and excellence in customer service and support.



Charles Solomon
Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT

This statement outlines the Company's main corporate governance practices and its compliance with the ASX Corporate Governance Principles and Recommendations 2nd Edition ("ASX Recommendations"). The Directors recognise the need to maintain the highest standards of behaviour, ethics and accountability. Corporate Governance best practice principles assist the Board in its role to oversee the Company's affairs.

Information on the Company's corporate governance and corporate practices are available on the Company's website (www.engin.com.au).

PRINCIPLE 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board is empowered to manage the business of the Company subject to the Corporations Act and the Company's Constitution. The Board is responsible for the overall corporate governance of the Company and the management of the Company. The role, responsibilities and functions of the Board are set out in a Formal Board Charter, (a copy of which can be found on the Company's website). The responsibilities and functions of the Board include:

- Oversight of the Company, including internal control and accountability systems.
- Appointment and removal of the Chief Executive Officer (or equivalent).
- Annual review of the performance of the Chief Executive Officer and senior management.
- Ratification of appointment and, where appropriate, the removal of the Chief Financial Officer (or equivalent) and the Company Secretary.
- Providing input and final approval of management's developed corporate strategy and performance objectives.
- Confirming that processes are in place to ensure adherence to appropriate risk management, internal control, Code of Conduct and statutory compliance requirements.

- Evaluating management performance, implementation of business strategy and ensuring that appropriate resources are available.
- Approving and monitoring major capital expenditure.
- Approving and monitoring relevant reporting.
- Appointing members of the Audit Committee and the Nomination and Remuneration Committee.
- Establishing limits of authority for the Chief Executive Officer and senior management to conduct day-to-day management of the Company's activities.

The Board delegates authority to manage the Company's day-to-day activities and the implementation of corporate objectives to the Chief Executive Officer and senior managers responsible to him.

It is the role of management to manage the Company in accordance with the direction determined by the Board and the Board's delegations to management under the Company's Delegation of Authority Policy. Formal delegations from the Board to management and functions reserved to the Board are set out in the Company's Delegation of Authority Policy.

The Policy provides that the powers and functions retained by the Board include decisions about Company strategy and policies, as well as matters involving amounts over specified limits, (which vary depending upon the nature of the transaction). The Board, or the Remuneration Committee, also has authority for succession planning and remuneration of the Chief Executive Officer and his direct reports.

All matters and functions not specifically reserved for the Board and which are necessary for the day to day management of the Company are delegated to management. For example, the Policy details procedures for the authorisation and signing of Company contracts and authorisations to relevant executives in relation to expenditure. Executive management can sub-delegate where appropriate.

As part of the framework set up by the Delegation of Authority Policy, management is required to report regularly to the Board concerning the authority exercised and matters which come, or may come, within the scope of matters reserved for the Board. The reports cover a range of matters, including sub delegations, any litigation activity, financial performance and risk management.

The functions exercised by the Board and those delegated to management are subject to ongoing review to ensure that the division of functions remains appropriate. A copy of the Delegation of Authority Policy can be found on the Company's website.

The performance of senior executives of the Company is evaluated both formally (through a documented interview process) and informally throughout the year. The performance of the Chief Executive Officer (or equivalent) is formally reviewed annually by the Chairman and Board. Through out the year, his performance is subject to ongoing Board scrutiny.

The performance of senior executives is formally reviewed annually by the Chief Executive Officer, who may in turn seek Board review. Senior management competencies and performance are reviewed. Throughout the year, the performance of senior management is subject to ongoing scrutiny by the Chief Executive Officer. Additionally, during the 2010 financial year, a review of senior management performance was undertaken by the Nomination Committee.

Both the Chief Executive Officer and senior executives are appraised against set objectives, either chosen at the beginning of the year or added during the year. These objectives are selected to enhance Company performance and increase value to shareholders, having regard to the relevant executive's duties and material areas of responsibility. The objectives and assessment criteria will in some instances be linked to the executive's particular remuneration arrangements.

CORPORATE GOVERNANCE STATEMENT

Performance reviews of senior executives have taken place during the year in accordance with these evaluation processes.

Induction procedures are in place to enable senior executives to participate fully and actively in the management of the Company at the earliest opportunity. An induction program is available that enables senior executives to gain an understanding of the Company's financial position, strategies and operations, risk management policies and the respective rights, duties, responsibilities and roles of the Board and senior executives.

PRINCIPLE 2. STRUCTURE THE BOARD TO ADD VALUE

As at the date of this statement, the Board currently comprises six (6) directors. The Directors in office are:

- Mr Ian Smith, Non Executive Director and Independent Chairman
- Mr Bruce McWilliam, Non Executive Director
- Mr Ryan Stokes, Non Executive Director
- Mr Timothy Howard, Non Executive Director
- Mr Martin Mercer, Non Executive Director
- Mr Charles Solomon, Executive Director and Chief Executive Officer

Details of Directors, including their time in office, qualifications, experience and special responsibilities are set out in the Directors' Report.

In September 2009, the Company appointed Mr Charles Solomon as Chief Executive Officer. Mr Solomon was previously the Company's General Manager. On 30 June 2010, Mr Solomon was appointed a Director of the Company.

On 30 June 2010, Mr Timothy Howard and Mr Martin Mercer were appointed as Directors of the Company. Mr Rohan Lund resigned as a Director of the Company on 30 June 2010.

The following principles and guidelines are considered in assessing the composition of the Board:

- The Board determines the optimal number of board members ranging from a minimum of three to a maximum of twelve members as stipulated in the Company Constitution.
- The Board should include directors with a broad range of industry, management and professional experience.
- Ideally the Board should comprise a majority of independent directors.
- The Board will appoint a Chairman who is a Non Executive Director and independent, as defined by the Company's Criteria on Independence of Directors. Mr Smith has been appointed Chairman in accordance with these Criteria.

In determining whether a Director is independent, the Board conducts regular assessments and has regard to whether a Director is considered to be one who:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed in an executive capacity by the Company or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Company or another group member other than as a Director.

The Board has previously determined that a material relationship is to be determined on the basis of fees paid or moneys received or paid

to either a Director or a Director-related entity, which may impact the EBITDA of the Company in the previous financial year by more than 5%.

The Board acknowledges the ASX Recommendation that a majority of the Board should be independent directors; however the Chairman and Directors believe they are able to objectively analyse the issues before them in the best interests of all shareholders and in accordance with their duties as directors. Whilst Mr McWilliam and Mr Stokes are associated with a substantial shareholder of the Company and Mr Howard and Mr Mercer are associated with a related company, the Chairman and Directors are satisfied that they are free of any business or other relationship that could materially interfere with the independent exercise of their judgement. Their individual and collective insights and experience in business is considered to be invaluable to the Company's operations.

With the prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors. Directors are encouraged to access members of the senior management team regularly, and to request relevant information as required.

The Directors meet regularly with the senior executives, discussing achievements and making suggestions and recommendations. Particular emphasis is placed on the need for compliance with legislation in areas such as trade practices, environmental, occupational health and safety and the Corporations Act.

The Board has established a Nomination and Remuneration Committee, the membership of which comprises Mr Smith, (Independent Chair), and Mr Stokes. The selection and appointment of new directors is done with reference to the Nomination Committee Charter which is available on the Company website.

CORPORATE GOVERNANCE STATEMENT

The process for appointing a Director is that when the Board considers that a vacancy exists for a Board appointment the Board, assisted by the Nomination Committee, identifies candidates with the appropriate expertise and experience, and may at its discretion use external consultants as appropriate. The most suitable candidate is appointed by the Board. New appointees to the Board stand for election in accordance with the Constitution at the next Annual General Meeting.

The number of meetings attended by the Nomination Committee members is disclosed in the Directors' Report.

Whilst acknowledging the ASX Recommendation that the Nomination Committee comprise a majority of independent directors and at least three members, the Board is satisfied that its two member Committee can sufficiently and objectively analyse the issues before them.

The Board will review the performance of individual directors annually with the assistance of the Nomination and Remuneration Committee. The basis of the evaluation will include:

- Reviewing adherence to the formal Board Charter.
- Defining professional development requirements of individual Board Members.
- Setting Board objectives and Key Performance Indicators for the upcoming year.

A performance review of individual directors took place in the 2010 financial year in accordance with these evaluation processes.

The Chairman closely monitors the performance and actions of the Board and its Committees and met with individual Board members during the year to ensure that both the Board and its Committees operated in an effective and efficient manner.

During the 2010 financial year, the Chairman, with the assistance of the Nomination Committee, undertook a review of Board composition and performance, which included

a performance evaluation of the Committees. As a result of this review, it was agreed that it was appropriate that a number of new Board appointments be made.

Remuneration of executives and directors is reviewed by the Committee in accordance with its Charter. For further detail, please refer to the Remuneration Report.

PRINCIPLE 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

As part of the Board's commitment to the highest standards of conduct and integrity, the Company adopts a Code of Conduct which clarifies to directors, management and employees the standards of ethical behaviour required in carrying out their duties and responsibilities. The Board and senior management are committed to the promulgation and implementation of the Code of Conduct throughout the Company.

The Code of Conduct covers such matters as:

- Conflicts of interest;
- Fair dealing;
- Protection and proper use of Company assets;
- Compliance with laws and regulations;
- Whistle blower protection;
- Relations with customers and suppliers;
- Ethical responsibilities;
- Employment practices;
- Responsibilities to the environment and the community.

A copy of the Code of Conduct is available on the Company's website.

The Company has adopted a Share Trading Policy allowing directors and nominated senior staff to trade in the Company's securities generally only in the six-week period following the release of the Company's half yearly results and yearly results to the ASX and after the Annual General Meeting. Senior staff also require the approval of the Board prior to trading in the Company's

securities. Trading outside the above periods must be first sanctioned by the Board; who must be satisfied that the trade does not result from the possession of any price sensitive information that has not been released to the ASX.

A copy of the Share Trading Policy is available on the Company's website.

The Company is in the process of developing a policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes. The Company will implement this policy early in the coming year.

Directors' shareholdings in the Company are shown in the Directors' Report.

PRINCIPLE 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Board maintains an Audit Committee which comprises Mr McWilliam, as its Chairman, Mr Smith and Mr Howard. Mr Howard was appointed to the Committee on 18 August 2010. Mr McWilliam is a Non Executive Director and Mr Smith is a Non Executive and Independent Director. Mr Howard is a Non Executive Director. Whilst acknowledging the ASX Recommendation that the Audit Committee comprise a majority of independent directors and have an independent chair, the Board is satisfied that its Audit Committee can sufficiently and objectively analyse the issues before them. Mr McWilliam, Mr Smith and Mr Howard have wide financial and audit committee experience. Information about the qualifications of Messrs McWilliam, Smith and Howard and the attendance of Mr McWilliam and Mr Smith at Audit Committee meetings during the financial year is contained within the Directors' Report. The Board believes the ASX Recommendation is satisfied as regards the technical expertise of the Audit Committee members.

CORPORATE GOVERNANCE STATEMENT

The Audit Committee has a formal Charter, a copy of which is available on the Company's website. The Committee's primary objective is to assist the Board in fulfilling its responsibilities concerning the accounting and reporting practices of the Company and its subsidiaries, the consideration of matters relating to the financial affairs of the Company and its subsidiaries and examination of any other matters referred to it by the Board.

The Audit Committee is also responsible for assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period, the external auditor provides an independence declaration in relation to the audit.

The current practice is for the rotation of the appropriate external audit partner to occur every five years, subject to the requirements of applicable professional and regulatory requirements. No rotation has yet occurred as the incumbent external auditor firm was appointed by shareholders at the 2008 Annual General Meeting.

The number of meetings attended by the Audit Committee members is disclosed in the Directors' Report.

PRINCIPLE 5. MAKE TIMELY AND BALANCED DISCLOSURE

The Board is committed to ensuring price sensitive information is released to the ASX in accordance with continuous disclosure requirements per ASX Listing Rule 3.1. All reports made to the ASX are published on the Company's website www.engin.com.au.

The Company complies with the continuous disclosure obligations of the ASX Listing Rules and, in doing so, immediately notifies the market of any material price sensitive information. The Continuous Disclosure Policy and Communication Policy is available on the Company's website.

The Company Secretary has been nominated as the person with primary responsibility for compliance, communication and liaison with the ASX in relation to ASX Listing Rules and continuous disclosure issues. The Company Secretary also has responsibility for ensuring internal compliance with those ASX Listing Rules and the oversight of information released to the ASX and shareholders.

PRINCIPLE 6. RESPECT THE RIGHTS OF SHAREHOLDERS

The Board is committed to providing effective lines of communication for shareholders and all other stakeholders to easily access Company information. The following channels of communication have been adopted to facilitate the fair, timely and cost effective dissemination of information:

- Annual General Meetings and any other formally convened Company meetings. Shareholders are encouraged to participate in general meetings and are invited to put questions to the Chairman of the Board in that forum.
- Company website at www.engin.com.au which enables broader access to Company information by investors and stakeholders. Copies of annual and half-year financial reports as well as all other announcements made to the ASX are posted on this website after disclosure to the market.
- Annual report, which is available to all shareholders.
- Direct communication – the Company may also communicate with shareholders, on matters of significance directly via mail or email.

The Directors ensure that the Company's external auditor attends all Annual General Meetings and is available to answer shareholders' questions about the conduct of the audit and the preparation and content of the Auditor's report.

The Company's formal Continuous Disclosure Policy and Communication Policy is available on its website.

PRINCIPLE 7. RECOGNISE AND MANAGE RISK

The Board has established a formal charter, which provides an appropriate framework for the oversight and management of material business risks and threats faced by the Company. The Board and the Audit Committee are responsible for adherence to the charter.

A copy of the Risk Management Charter, which deals with the management of various categories of risk, is available on the Company's website.

The operational and financial aspects of the Company's activities, including risk management, are monitored by the Board and the Audit Committee. Through the Audit Committee the Board considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the Company.

The Board ensures that recommendations made by the external auditors and other external advisers are investigated and that, where considered necessary, appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

In 2009, through the Board, and facilitated by an external consultant, management undertook a detailed Strategic Risk Assessment which identified and ranked the key strategic risks facing the Company. These risks were identified as being in the operations category. After assessment, the Company's management of those risks was considered to be satisfactory. The assessment also assisted with the development of a formal risk profile.

Having regard to the size of the Company, the Board has required management to design and implement the risk management and internal control system outlined above to manage the Company's material business risks and report to it on whether those risks are being managed

CORPORATE GOVERNANCE STATEMENT

effectively. Management has reported to the Board as to the effectiveness of the Company's management of material business risks. Senior management is responsible for the implementation of appropriate controls and risk mitigation strategies as directed.

The Board has determined that a further formal Strategic Risk Assessment will be undertaken during the 2011 financial year.

The Board receives monthly reporting relating to the financial position and performance of the consolidated entity.

Pursuant to Section 295A of the Corporations Act, the Chief Executive Officer and the Chief Financial Officer have confirmed in writing to the Board, who subsequently stated in writing to the external auditors, that the financial records of the Company have been properly maintained, the financial statements are prepared in accordance with relevant accounting standards, present a true and fair view, and that the integrity of the financial reports is founded on a sound system of risk management and internal compliance and control systems which, in all material respects, implement the policies prescribed by the Board. The Directors' Declaration set out in this Annual Report confirms that the declarations required by Section 295A of the Corporations Act have been given.

PRINCIPLE 8. REMUNERATE FAIRLY AND RESPONSIBLY

The total maximum remuneration of Non-Executive Directors was approved by shareholders at \$500,000 per annum on 20 November 2006. The approved limit provides adequate flexibility for the appointment of additional directors. For the year ended 30 June 2010, the remuneration of the Chairman was \$100,000 per annum plus superannuation. Messrs Howard, Lund, McWilliam, Mercer and Stokes received no remuneration from the Company during the financial year. No Director was granted options or received a bonus payment during the financial year. No Director received a retirement benefit, other than the payment of superannuation on behalf of the Chairman.

The Board has established a Nomination and Remuneration Committee, the members of which are Mr Smith (Independent Chair) and Mr Stokes. The functions of the Committee include review and recommendation to the Board in relation to the remuneration framework for the Board, executive remuneration and incentive policies and succession planning. A copy of the Committee's Charter is available on the Company's website. The number of meetings attended by the Committee members is disclosed in the Directors' Report.

Whilst acknowledging the ASX Recommendation that the Remuneration Committee comprise a majority of independent directors and at least three members, the Board is satisfied that its two member Committee can sufficiently and objectively analyse the issues before them.

The objective of the remuneration process is to ensure that remuneration packages properly reflect the duties and responsibilities of the employee and that the remuneration is at an appropriate but competitive market rate which enables the Company to attract, retain and motivate people of the highest quality.

In June 2010, the Company established an Executive Share Ownership Plan through which senior executives would be offered Rights to acquire fully paid ordinary shares in the Company upon their achievement of performance based targets in relation to Services in Operation and EBITDA. The Board considers that the achievement of performance targets in these particular areas provides both an additional incentive to management and a benefit to all the Company's shareholders.

On 30 June 2010, under the Executive Share Ownership Plan, 375,000 Rights (unvested entitlements) were issued by the Company to five senior executives. The Company is in the process of developing a policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes. The Company will implement this policy early in the coming year.

As at and since 30 June 2010 no holders of unvested entitlements have entered into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.

Further details relating to remuneration, including executive remuneration, are contained within the Remuneration Report.

DIRECTORS' REPORT

The directors of engin Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2010. In order to comply with the provisions of the *Corporations Act 2001*, the directors' report follows.

The directors of the Company at any time during or since the end of the financial year are:

DIRECTORS

NAME	PARTICULARS
Ian Smith Non-executive director Independent Chairman	A director of the Company since September 2007. Chairman since January 2008. Mr Smith brings a wealth of experience in the media and communications industry to the Company, with over twenty years in the advertising business. He was appointed a director of Connixion Ventures Limited on 20 July 2009. Mr Smith's previous roles include CEO of Yahoo!7, CEO of The Communications Group Holdings Pty Limited, President International for Bates Worldwide and a board director of Cordiant Communications plc. Mr Smith is a member of the Audit & Risk Management Committee and a member and chairman of the Nomination & Remuneration Committee.
Bruce McWilliam Non-executive director	A director of the Company since October 2006. Mr McWilliam has been a director of Seven Group Holdings Limited since 28 April 2010 and Seven Network Limited since September 2003. He has been a director of Seven Media Group Pty Ltd since December 2006. He was appointed Commercial Director for Seven Network Limited in May 2003. He is an alternate director of West Australian Newspapers Holdings Limited. Prior to joining Seven Network Limited, he was a former partner of law firms Gilbert & Tobin, Turnbull McWilliam and Allen Allen & Hemsley specialising in media and commercial law. He is a former director of BSKyB, Executive Director News International Television and General Counsel of News International plc. Mr McWilliam is a member and chairman of the Audit & Risk Management Committee.
Ryan Stokes Non-executive director	A director of the Company since October 2006. Mr Stokes has been a director of Seven Group Holdings Limited since 16 February 2010 and Seven Network Limited since December 2005. He is a director of Seven Media Group Pty Ltd, Westrac Pty Limited and Yahoo!7 and former Chairman of Pacific Magazines. He is an alternate director of West Australian Newspapers Holdings Limited. He is also CEO and director of Australian Capital Equity Pty Limited and other companies including vividwireless and Wireless Broadband Australia Limited (formerly Unwired Group Limited). Mr Stokes was appointed to the Board of Consolidated Media Holdings Limited on 10 September 2009. Mr Stokes is a member of the Nomination & Remuneration Committee.
Timothy Howard Non-executive director	A director of the Company since 30 June 2010. Mr Howard is General Manager of Finance for vividwireless. Mr Howard was responsible for digital media investments & strategy at Seven Network Limited, overseeing the acquisition of Wireless Broadband Australia Limited (formerly Unwired Group Limited) by Seven Network Limited in December 2007. Previous to this he was manager of strategy & acquisitions at National Hire Group Limited from 2004 to 2006 and before that, he worked in the treasury & commodities division at Macquarie Bank and Lehman Brothers in London. Mr Howard holds a Bachelor of Commerce (Finance) and Bachelor of Laws from the University of New South Wales and an MBA from the Australian School of Business. Mr Howard is a member of the Audit & Risk Management Committee.
Martin Mercer Non-executive director	A director of the Company since 30 June 2010. Mr Mercer is also director and Chief Executive Officer of vividwireless. Previously Executive Director of Marketing, Telstra Corporation Limited with various senior executive roles with Telstra Corporation covering sales, planning, strategy, business development and line management. Mr Mercer has also held executive roles in mining and resources, politics, and the public sector. Mr Mercer holds a Bachelor of Arts (Honours) and a Bachelor of Laws from the University of Sydney, a Graduate Diploma in Finance from the Securities Institute of Australia, and was a visiting Fellow at the Woodrow Wilson School of Public and International Affairs, Princeton University (Economics and Finance). Mr Mercer is a former Harkness Fellow.
Charles Solomon Executive director & CEO	A director of the Company since 30 June 2010. Mr Solomon is the current CEO of engin Limited. Mr Solomon joined engin in July 2008 as GM Sales and Marketing and was promoted to General Manager in October 2008 and moved into the CEO role in September 2009. Mr Solomon has previously held general management and senior sales and marketing roles with Goodyear ANZ, Reckitt & Colman, Accenture and Procter & Gamble. Mr Solomon holds a Bachelor of Commerce (Honours) from the University of the Witwatersrand, a Master of Science from the University of South Africa and an MBA from the Australian Graduate School of Management.
Rohan Lund Non-executive director	Resigned 30 June 2010.

DIRECTORS' REPORT

DIRECTORSHIPS OF OTHER LISTED COMPANIES

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

NAME	COMPANY	PERIOD OF DIRECTORSHIP
Bruce McWilliam	Seven Group Holdings Limited	Since 28 April 2010
Bruce McWilliam	Seven Network Limited	Since September 2003 (company de-listed 9 July 2010)
Bruce McWilliam	Wireless Broadband Australia Limited (formerly Unwired Group Limited)	Since January 2008 (company de-listed May 2008)
Bruce McWilliam	West Australian Newspapers Holdings Limited	Alternate since 4 November 2008
Ryan Stokes	Seven Group Holdings Limited	Since 16 February 2010
Ryan Stokes	Seven Network Limited	Since December 2005 (company de-listed 9 July 2010)
Ryan Stokes	Wireless Broadband Australia Limited (formerly Unwired Group Limited)	Since January 2008 (company de-listed May 2008)
Ryan Stokes	West Australian Newspapers Holdings Limited	Alternate since 4 November 2008
Ryan Stokes	Consolidated Media Holdings Limited	Since 10 September 2009
Ian Smith	Connixion Ventures Limited	Since 20 July 2009

COMPANY SECRETARY

John Kinninmont Company Secretary since 17 April 2008. Bachelor of Economics (University of Sydney) and a Fellow of Chartered Secretaries Australia. Mr Kinninmont has been a Company Secretary at Seven Network Limited for the past eleven years. He is Company Secretary for the Seven Media Group.

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the financial year was the delivery of broadband telephony services and the sale of related hardware to its customers, branded as "engin".

NET CONSOLIDATED PROFIT

The net amount of consolidated profit/(loss) of the consolidated entity for the financial year after provision for income taxes was (\$2,411,643) [2009: (\$6,760,201)].

REVIEW OF OPERATIONS

The Company delivered its first full year positive EBITDA of \$701,115, a turn around of \$2,182,396 versus the prior year EBITDA loss of (\$1,481,241).

While the Company delivered a PBT loss for the year of \$2,411,643, which includes \$2,712,475 of accelerated depreciation on the Billing System, this was an improvement of \$4,348,558 versus

the prior year PBT loss. During the financial year the Company saw continued month on month improvement in the results, and as such delivered a PBT in the second half of the year of \$205,617 (versus a first half PBT loss of \$2,617,260).

The Company ended the year with cash of \$4,643,575 after generating net cash flow of \$393,008 for the year; this result includes operating cash flow of \$705,566, an improvement of \$1,972,091 on the prior year operating cash outflow of (\$1,266,525).

Revenue increased year on year by 3.6% to \$20,927,422, with SIOs (Services In Operation) growing by 4.5% to approximately 70,000.

The Company's DSL2+ product growth has continued and with approximately 3,000 active services at year-end is proving to be a strong enabler for our VoIP products in both the residential and business markets.

During the year the Company successfully migrated its customer base to a new network,

which is feature rich and fully scaleable. As a result a number of finance leases, which came to term in the year, were discontinued. The new network has enabled engin to launch advanced Business VoIP products, such as the Hosted ePBX, which has had a strong take up since launching in January of this year.

During the year the Company reduced the ordinary number of shares on issue by consolidating every fifty (50) shares into one (1) share. Following the consolidation and as at year end the Company had 12,710,145 shares on issue.

CHANGE IN STATE OF AFFAIRS

During the financial year there were no significant changes in the state of affairs of the consolidated entity other than referred to in the financial statements or notes thereto.

SUBSEQUENT EVENTS

There are no subsequent events to report.

DIRECTORS' REPORT

FUTURE DEVELOPMENTS

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

DIVIDENDS

There have been no dividends paid or declared since the beginning of the financial year, and the directors do not recommend the payment of a dividend in respect of the financial year.

SHARE OPTIONS

Share options granted to directors and executives

On 30 June 2010, the Company granted 375,000 options to employees of which 200,000 were allocated to the following Company Executives.

EXECUTIVES	NUMBER OF OPTIONS GRANTED	ISSUING ENTITY	EXPIRY DATE
M. Gepp (CFO)	100,000	engin Limited	30 June 2015
G. Dollar (COO)	100,000	engin Limited	30 June 2015

SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

There were no shares or interests issued during or since the end of the financial year as a result of exercise of options.

Details of unissued shares or interests under option for directors, executives and employees as at the date of this report are:

ISSUING ENTITY	TRANCHE	NUMBER OF OPTIONS GRANTED	CLASS OF SHARES	EXERCISE PRICE OF OPTION	EXPIRY DATE
engin Limited	1	75,000	Ordinary	\$Nil	30 June 2015
engin Limited	2	112,500	Ordinary	\$Nil	30 June 2015
engin Limited	3	112,500	Ordinary	\$Nil	30 June 2015
engin Limited	4	75,000	Ordinary	\$Nil	30 June 2015
Total		375,000			

The holders of such options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any body corporate or registered scheme.

The following conditions apply to the options on issue:

- The exercise of Rights is contingent on engin Limited achieving the agreed year-to-year targets for SIOs (Services in Operation) and EBITDA (effective for Tranches 2-4).
- Vesting of Rights is contingent on ongoing employment.
- The allocation of Rights for Tranche 1 is considered a "Performance Bonus" based on performance already achieved in the FY09 year.

FOUR TIERS ARE USED TO MEASURE PERFORMANCE FOR THE PURPOSE OF THE VESTING OF RIGHTS:

Achieving Target greater than or equal to: % of Rights that vest	100%
Achieving Target greater than or equal to: % of Rights that vest	95-99%
Achieving Target greater than or equal to: % of Rights that vest	90-94%
Achieving Target greater than or equal to: % of Rights that vest	90%
Achieving Target greater than or equal to: % of Rights that vest	0%

DIRECTORS' REPORT

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the Company secretary and all executive officers of the Company against a liability incurred as a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of 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 of the Company against a liability incurred as such an officer or auditor.

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year 8 Board meetings, 3 Audit & Risk Management Committee and 2 Remuneration & Nomination Committee meetings were held.

DIRECTORS	BOARD OF DIRECTORS		REMUNERATION & NOMINATION COMMITTEE		AUDIT & RISK MANAGEMENT COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
Ian Smith	8	8	2	2	3	3
Ryan Stokes	8	8	2	2	3	3
Bruce McWilliam	8	8	–	–	3	3
Rohan Lund	8	8	–	–	3	3

Mr Mercer, Mr Howard and Mr Solomon, all of who were appointed Directors of the Company on 30 June 2010 did not attend any Board meetings in the capacity of Director during the year.

DIRECTORS' SHAREHOLDINGS

Mr Stokes and Mr McWilliam are both directors of Seven Group Holdings Limited, which ultimately holds 7,429,945 shares in the Company. No director or director related entities hold shares in the Company other than the Seven Group Holdings Limited shareholding disclosed.

REMUNERATION REPORT

Remuneration & Nomination Committee

The Remuneration & Nomination Committee is responsible for making recommendations to the Board on remuneration and compensation policies and packages for all staff, including Board members and executives of the Group. It oversees the appointment and induction process for directors' and committee members, and the election, appointment and succession planning process of the Company's CEO.

Role of the Committee

The Remuneration & Nomination Committee operates in accordance with its Charter; its responsibilities include review and recommendation to the Board on:

- Executive remuneration and incentive policies
- Ensuring policy allows the Company to recruit and retain suitably qualified executives
- Remuneration framework for directors
- Aligning the interests of key employees to the long term interests of shareholders
- Demonstrate a clear relationship between key executive performance and remuneration.

Membership

The current members of the Committee are Mr Smith (Chairman) and Mr Stokes.

Remuneration Principles and policy

The key principles of the Company Remuneration Policy are to remunerate and compensate fairly and responsibly; to remunerate competitively enabling the attraction, retention and motivation of staff of the highest quality and best skills from the industry in which the Company operates; and to ensure that remuneration packages properly reflect the duties and responsibilities of the staff member, including the impact they are expected to have on operational and financial performance.

Key Management Personnel have authority and responsibility for planning, directing and controlling the activities of the Company. For 2010, Key Management Personnel comprise the Directors of the Company, the Chief Executive Officer, the Chief Financial Officer and the Chief of Operations. The Company Secretary is a Company Executive.

Remuneration Structure

Remuneration levels for Key Management Personnel and Executives are competitively set to attract and retain appropriately qualified and experienced individuals.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes fringe benefits tax charges related to employee benefits), as well as employer contributions to superannuation funds and guaranteed bonus payments. The Remuneration Committee through a process that considers individual, segment, and overall performance of the Group reviews remuneration levels.

Performance linked remuneration

Performance linked remuneration is designed to reward key management personnel for meeting or exceeding their financial and personal objectives and includes both a cash and share based component.

Directors of the Company

The following persons acted as directors of the Company during or since the end of the financial year:

- I. Smith, Independent Chairman, Non-executive director
- R. Stokes, Non-executive director
- B. McWilliam, Non-executive director
- T. Howard, Non-executive director (appointed 30 June 2010)
- M. Mercer, Non-executive director (appointed 30 June 2010)

- C. Solomon, Executive director (appointed 30 June 2010)
- R. Lund, Non-executive director (resigned 30 June 2010)

The total maximum remuneration of non-executive directors is \$500,000 per annum (as approved by shareholders on 20 November 2006).

The non-executive directors received no performance-linked remuneration during the year. No options were granted to any Director during the year, nor did any Director hold or exercise options in the Company during the year.

Company Executives

The Executives discussed in this section are Mr Solomon (Executive Director and CEO), Mr Gepp (CFO) and Mr Dollar (COO), all of who are members of the Company's Key Management Personnel and who were employed for the duration of the year and at 30 June 2010. Mr Kinninmont (Company Secretary) is a Company Executive.

In the opinion of the Board, there are no other Key Management Personnel (as defined by AASB 124) employed by the consolidated entity.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

Remuneration and compensation details of Directors and Company Executives for the year ended 30 June 2010 are shown below.

Key Management Personnel – Non Executive Directors

	SHORT TERM BENEFITS			POST EMPLOYMENT	SHARE-BASED PAYMENTS	TOTAL
	SALARY & FEES	BONUS	NON-MONETARY	SUPER-ANNUATION	OPTIONS	
	\$	\$	\$	\$	\$	\$
I. Smith (Chairman)						
2010	100,000	–	–	9,000	–	109,000
2009	139,000	–	–	12,510	–	151,510
R. Stokes						
2010	–	–	–	–	–	–
2009	–	–	–	–	–	–
B. McWilliam^[a]						
2010	–	–	–	–	–	–
2009	–	–	–	–	–	–
R. Lund^{[a] [b]}						
2010	–	–	–	–	–	–
2009	–	–	–	–	–	–
T. Howard^[c]						
2010	–	–	–	–	–	–
M. Mercer^[c]						
2010	–	–	–	–	–	–
Total Directors						
2010	100,000	–	–	9,000	–	109,000
2009	139,000	–	–	12,510	–	151,510

[a] Mr Stokes, Mr McWilliam and Mr Lund received no remuneration for services performed in the current or previous financial year.

[b] Mr Lund resigned as Director on 30 June 2010.

[c] Mr Mercer and Mr Howard were appointed Directors on 30 June 2010 and received no remuneration for services performed in the current financial year.

DIRECTORS' REPORT

Key Management Personnel – Executive Directors, Executives and Company Executive

	SHORT TERM BENEFITS			POST EMPLOYMENT		SHARE-BASED	TOTAL
	SALARY & FEES	BONUS	NON-MONETARY	SUPER-ANNUATION	TERMINATION BENEFITS	PAYMENTS	
	\$	\$	\$	\$	\$	\$	\$
C. Solomon (Executive Director & CEO)^[d]							
2010	260,000	91,000	–	31,590	–	–	382,590
2009	232,159	–	–	20,850	–	–	253,009
J. Kinninmont (Company Secretary)^[e]							
2010	–	–	–	–	–	–	–
2009	–	–	–	–	–	–	–
M. Gepp (CFO)							
2010	172,300	45,000	–	27,950	–	8,387	253,637
2009	180,000	–	–	16,200	–	–	196,200
G. Dollar (COO)							
2010	181,514	40,000	–	19,800	–	8,387	249,701
2009	180,000	–	–	16,200	–	–	196,200
Total Senior management							
2010	613,814	176,000	–	79,340	–	16,774	885,928
2009	592,159	–	–	53,250	–	–	645,409

[d] Mr Solomon was appointed as a Director on 30 June 2010.

[e] Mr Kinninmont received no remuneration for services performed in the current or previous financial year.

Analysis of bonuses included in remuneration

Details of the vesting profile of short-term incentive cash bonuses awarded as remuneration to each executive of the Company for each of the Key executives are detailed below:

EXECUTIVE	INCLUDED IN REMUNERATION ^[a]	% VESTED IN YEAR	% FORFEITED IN YEAR
C. Solomon (Executive Director and CEO)	91,000	100%	0%
M. Gepp (CFO)	45,000	100%	0%
G. Dollar (COO)	40,000	100%	0%

[a] Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of Company goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of bonus schemes for the 2010 financial year.

The Company issued share options on 30 June 2010. It did not have a policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes. The Company is currently putting in place such a policy. No recipient of options entered into any arrangement of this sort during or after the 2010 financial year. The Company has a share trading policy, which prohibits Directors, executives and staff from trading in shares of the Company except for the six week period following the release of the Company's half yearly and yearly results to the ASX and after the Annual General Meeting.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

Employment contracts

The remuneration and other terms of employment for the Executives named above are set out in written employment agreements. Each of these employment agreements are unlimited in term but may be terminated by written notice by either party and by the Company making payment in lieu of notice. The amount of notice required from the Company in these circumstances is set out in the following table:

NAME OF EXECUTIVE	COMPANY NOTICE PERIOD	EMPLOYEE NOTICE PERIOD	TERMINATION PROVISION
C. Solomon	6 months	3 months	6 months base salary
M. Gepp	3 months	3 months	3 months base salary
G. Dollar	3 months	3 months	3 months base salary

Each of the agreements sets out the arrangement for total fixed remuneration, performance-related cash bonus opportunities, superannuation and termination rights and obligations. Executive salaries are reviewed annually. The executive employment agreements do not require the Company to increase base salary, incentive bonuses or to continue the participants' participation in equity-based incentive programs.

Value of options issued to directors and executives

Details on options over ordinary shares in the Company that were granted as compensation to each Key Management Person during the period and details on options that vested during the reporting period are as follows:

EXECUTIVES	NO. OF OPTIONS GRANTED	GRANT DATE	FAIR VALUE	EXERCISE PRICE PER OPTION	EXPIRY DATE	NO. OF OPTIONS
			PER OPTION AT GRANT DATE (\$)			VESTED AS AT 30 JUNE 2010
M. Gepp	100,000	30 June 2010	0.40	\$Nil	30 June 2015	–
G. Dollar	100,000	30 June 2010	0.40	\$Nil	30 June 2015	–

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

Remuneration policy and Company performance

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2010:

	30 JUNE 2010	30 JUNE 2009	30 JUNE 2008	30 JUNE 2007	30 JUNE 2006
Net profit/(loss) after tax [\$]	(2,411,643)	(6,760,201)	(12,168,391)	(17,337,392)	(7,319,252)
Basic earnings/(loss) per share ^[a] [cents]	(19.0)	(53.0)	(145.0)	(279.5)	(183.5)
Share price [cents]	40	1.6	2.1	18.0	22.5
Dividend [cents per share]	–	–	–	–	–

[a] On 24 November 2009 the Company reduced the number of shares on issue by consolidating every fifty (50) shares into one (1) share. The earnings per share in the comparative years have been restated to present the comparison as if the share consolidation occurred in the earliest period presented.

DIRECTORS' REPORT

NON-AUDIT SERVICES

The Amount paid or payable to the auditors for non-audit services performed during the year was \$4,655 (2009: \$Nil). All amounts paid or payable to the auditor are outlined in note 6 to the financial statements.

The directors are satisfied that the provision of non-audit services by the auditor, KPMG, was compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

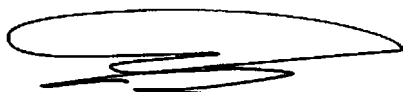
CORPORATIONS ACT AMENDMENT

Due to an amendment to the Corporations Act, the requirement to present parent company financial statements has been removed. Summarised parent entity information is disclosed in Note 29.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 18 of the financial report.

Signed for and on behalf of the Board of Directors and in accordance with a resolution of the Directors.



Ian Smith
Chairman

Sydney, 18 August 2010

AUDITOR'S INDEPENDENCE DECLARATION

YEAR ENDED 30 JUNE 2010



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of engin Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'KPMG.' with a period at the end.

KPMG

A handwritten signature in black ink, appearing to be 'KR', written in a cursive style.

Kenneth Reid
Partner

Sydney

18 August 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	NOTE	CONSOLIDATED	
		2010 \$	2009 \$
Continuing operations			
Revenue from ordinary activities	2	20,927,422	20,200,247
Communication expenses		(6,780,049)	(7,023,014)
Cost of hardware sold		(1,260,580)	(1,519,706)
Gross Profit		12,886,793	11,657,527
Other income	2	133,500	–
Employee expenses		(7,217,641)	(7,779,703)
Marketing expenses		(990,238)	(969,881)
Occupancy expenses		(320,006)	(432,524)
Other operating expenses		(3,791,253)	(3,956,660)
Depreciation, amortisation & impairment expense	2	(3,247,675)	(5,438,878)
Results from operating activities		(2,546,520)	(6,920,119)
Finance income		165,806	246,016
Finance expenses	2	(30,929)	(86,098)
Net finance income/(expense)		134,877	159,918
Profit/(loss) before income tax		(2,411,643)	(6,760,201)
Income tax expense	3	–	–
Profit/(loss) for the year		(2,411,643)	(6,760,201)
Other comprehensive income		–	–
Other comprehensive income for the period net of income tax		–	–
Total comprehensive income for the period		(2,411,643)	(6,760,201)
Earnings/(Loss) per share (cents per share)			
From continuing operations:			
Basic	20	(19.0)	(53.2)
Diluted	20	(19.0)	(53.2)

The notes on pages 23 to 43 are an integral part of these consolidated financial statements.

BALANCE SHEET

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	NOTE	CONSOLIDATED	
		2010 \$	2009 \$
Current assets			
Cash and cash equivalents	27	4,643,575	4,250,567
Trade and other receivables	7	1,371,215	1,252,280
Inventories	8	240,655	181,003
Other assets	9	156,247	194,152
Total current assets		6,411,692	5,878,002
Non-current assets			
Property, plant and equipment	10	814,244	1,070,097
Customer management & billing system	10	–	2,704,975
Total non-current assets		814,244	3,775,072
Total assets		7,225,936	9,653,074
Current liabilities			
Trade and other payables	12	3,598,272	3,649,670
Borrowings – Finance lease liability	13	59,790	443,474
Provisions	14	244,385	250,384
Total current liabilities		3,902,447	4,343,528
Non-current liabilities			
Borrowings – Finance lease liability	15	192,169	–
Provisions	16	135,306	76,252
Other	15	142,911	–
Total non-current liabilities		470,386	76,252
Total liabilities		4,372,833	4,419,780
Net assets		2,853,103	5,233,294
Equity			
Issued capital	17	45,064,769	45,064,769
Reserves	18	31,452	–
Retained earnings/(accumulated losses)	19	(42,243,118)	(39,831,475)
Total equity		2,853,103	5,233,294

The notes on pages 23 to 43 are an integral part of these consolidated financial statements.

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	NOTE	CONSOLIDATED	
		2010 \$	2009 \$
Cash flows from operating activities			
Receipts from customers		22,654,235	22,148,893
Payments to suppliers and employees		(21,917,740)	(23,329,320)
Interest and other costs of finance paid		(30,929)	(86,098)
Net cash from/(used in) operating activities	27(b)	705,566	(1,266,525)
Cash flows from investing activities			
Payment for property, plant and equipment		(286,849)	(121,056)
Interest received		165,806	246,016
Net cash (used in)/from investing activities		(121,043)	124,960
Cash flows from financing activities			
Repayment of borrowings		(397,505)	(1,176,222)
Proceeds from borrowing		205,990	–
Share issue costs		–	(14,898)
Net cash (used in) financing activities		(191,515)	(1,191,120)
Net increase/(decrease) in cash and cash equivalents		393,008	(2,332,685)
Cash and cash equivalents at 1 July		4,250,567	6,583,252
Cash and cash equivalents at 30 June	27(a)	4,643,575	4,250,567

The notes on pages 23 to 43 are an integral part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Consolidated

	SHARE CAPITAL \$	EMPLOYEE BENEFITS RESERVE \$	RETAINED EARNINGS \$	TOTAL EQUITY \$
Balance as at 30 June 2008	45,079,667	–	(33,071,274)	12,008,393
Total recognised income & expense	–	–	(6,760,201)	(6,760,201)
Share issue cost	(14,898)	–	–	(14,898)
Balance as at 1 July 2009	45,064,769	–	(39,831,475)	5,233,294
Total recognised income & expense	–	–	(2,411,643)	(2,411,643)
Share-based payment – Options	–	31,452	–	31,452
Balance at 30 June 2010	45,064,769	31,452	(42,243,118)	2,853,103

The notes on pages 23 to 43 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

1. SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 18 August 2010.

Basis of preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting

estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Going concern

The financial report has been prepared on the basis that engin is a going concern, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. Based on current cash and profit projections the Directors believe this is an appropriate basis.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Accounts payable

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(b) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(c) Borrowing costs

Borrowing costs directly attributable to assets under construction are capitalised as part of the cost of those assets.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand; cash in banks and investments in money market instruments.

(e) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, sick leave, and other employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of other employee benefits, including long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

(f) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

(g) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(h) Foreign currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

Exchange differences are recognised in the statement of financial performance in the period in which they arise.

Financial statements of integrated foreign controlled entities are translated at reporting date using the temporal method and exchange differences are taken directly to the statement of financial performance.

(i) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

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

(j) Impairment of non-current assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(k) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes recoverable in respect of the tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as an asset to the extent that it is refundable.

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Tax consolidation

The company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. engin Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 3 to the financial statements.

(l) Inventories

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

(m) Investments

Investments in controlled entities are recorded at cost. Investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. Dividend and interest revenues are recognised on a receivable basis.

(n) Joint ventures

Interests in jointly controlled entities are accounted for under the equity method in the consolidated financial statements and the cost method on the company financial statements.

(o) Leased assets

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

Consolidated entity as lessee

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

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

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

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

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(p) Plant & equipment

Plant and equipment, leasehold improvements and equipment under finance lease 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 property, 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 following estimated useful lives are used in the calculation of depreciation:

- Billing system 30 months
- Other plant and equipment 3-8 years
- Equipment under finance lease 3-5 years

The useful life of the Billing system has been revised from 5 years in the prior reporting period to 30 months in the current reporting period in keeping with the estimated residual value of the asset.

(q) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 23 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(r) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

Dividends

A provision is recognised for dividends when they have been declared, determined or publicly recommended by the directors on or before the reporting date.

(s) Revenue recognition

Sale of Goods and Disposal of Assets

Revenue from the sale of goods and disposal of other assets is recognised when the company and consolidated entity has passed control of the goods or other assets to the buyer.

Rendering of Services – Broadband Telephony Provider

Revenue from the rendering of broadband telephony services is recognised by Engin Limited as customers utilise the service (make telephone calls) and service fees accrue over the monthly billing period.

(t) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

(u) Adoption of new and revised accounting policies

The following standards, amendments to standards and interpretations have been identified as those that may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied preparing this financial report:

AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement.

AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

(u) Adoption of new and revised accounting policies (cont'd)

AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 – Group and Treasury Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issue [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

2. REVENUE AND EXPENSES FROM CONTINUING OPERATIONS

	CONSOLIDATED	
	2010 \$	2009 \$
Operating revenue		
Rendering of services	20,383,344	19,912,320
Sale of goods	544,078	287,927
	20,927,422	20,200,247
Other income		
Other revenue	133,500	–
	133,500	–
Finance expenses		
Finance lease finance charge	30,929	86,098
	30,929	86,098
Other expenses		
Net bad and doubtful debts	227,316	227,000
Equity settled share based payments	31,452	–
Depreciation and amortisation:		
Billing System	2,712,475	1,254,055
Other plant & equipment	335,039	1,276,604
Equipment under finance lease	200,161	1,276,000
Impairment:		
Impairment of plant and equipment & equipment under finance lease	–	1,632,219
Total depreciation, amortisation and impairment	3,247,675	5,438,878
Operating lease rental expenses:		
Minimum lease payments	215,285	289,512

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

3. INCOME TAX EXPENSE

	CONSOLIDATED	
	2010 \$	2009 \$
Income tax expense		
Current period	–	–
Deferred tax (credit)/expense due to origination and reversal of temporary differences	–	–
Tax losses not brought to account	–	–
Total tax expense in income statement	–	–
Reconciliation between tax expense and pre-tax accounting profit		
Profit/(loss) before income tax	(2,411,643)	(6,760,201)
Income tax (credit) using the domestic corporation tax rate 30% (2009: 30%)	(723,493)	(2,028,060)
Non-deductible expenses	15,176	5,000
Tax losses not brought to account	708,317	2,023,060
	–	–
Deferred tax balance		
There was no deferred tax balance recognised on the balance sheet in either the current or prior year.		
Unrecognised deferred tax balances		
The following deferred tax assets have not been brought to account as assets:		
Tax losses – revenue	14,198,475	13,490,158
Tax losses – capital	257,000	257,000
	14,455,475	13,747,158

The taxation benefits of tax losses not brought to account will only be obtained if:

- assessable income is derived of a nature and of an amount sufficient to enable the benefit from the deductions to be realised;
- conditions for deductibility imposed by the law are complied with; and
- no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

Tax consolidation

Relevance of tax consolidation to the consolidated entity

The company and its wholly owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is engin Limited. The members of the tax-consolidated group are identified at note 23.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, engin Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

4. DIRECTOR AND EXECUTIVE DISCLOSURES

Individual Directors and Executives remuneration disclosures

Information regarding individual Directors' and Executives' remuneration as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 are provided in the Remuneration Report section of the Directors' report.

No Director has entered into a material contract with the Company or Group since the end of the previous financial year-end. There were no material contracts involving Directors interests existing at year-end.

The aggregate compensation made to Directors and other members of Key Management Personnel of the company and the Group is set out below:

	CONSOLIDATED	
	2010 \$	2009 \$
Short term employee benefits	889,814	929,792
Post-employment benefits	88,340	81,698
Other long term benefits	—	—
Termination benefits	—	196,251
Share-based payments	16,774	—
Total	994,928	1,207,741

The comparative figures include amounts paid to executives that did not hold that role in the current year.

5. SHARE-BASED PAYMENTS

As at 30 June 2010 the number of options on issue was 375,000 (2009: Nil).

The Group has a share-based compensation scheme for executives, senior employees and non-executive directors of the Group. In accordance with the provisions of the plans, as approved by shareholders at previous annual general meetings, executives, senior employees and non-executive directors may be granted options to acquire ordinary shares at no consideration where specified key performance targets are achieved.

Each executive share option converts into one ordinary share of engin Limited on exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following conditions apply to the options on issue:

- The exercise of Rights is contingent on engin Limited achieving the agreed year-to-year targets for SIOs (Services in Operation) and EBITDA (effective for Tranches 2-4).
- Vesting of Rights is contingent on ongoing employment.
- The allocation of Rights for Tranche 1 is considered a "Performance Bonus" based on performance already achieved in the FY09 year.

FOUR TIERS ARE USED TO MEASURE PERFORMANCE FOR THE PURPOSE OF THE VESTING OF RIGHTS:

Achieving Target greater than or equal to: % of Rights that vest	100%
Achieving Target greater than or equal to: % of Rights that vest	100%
Achieving Target greater than or equal to: % of Rights that vest	95-99%
Achieving Target greater than or equal to: % of Rights that vest	75%
Achieving Target greater than or equal to: % of Rights that vest	90-94%
Achieving Target greater than or equal to: % of Rights that vest	50%
Achieving Target greater than or equal to: % of Rights that vest	90%
Achieving Target greater than or equal to: % of Rights that vest	0%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

5. SHARE-BASED PAYMENTS (CONTINUED)

The following table reconciles the outstanding share options granted under the Executive Share Option Plan at the beginning and end of the financial year:

	2010		2009	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE \$	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE \$
Balance at beginning of the financial year	–	–	–	–
Granted during the financial year	375,000	–	–	–
Forfeited during the financial year	–	–	–	–
Exercised during the financial year	–	–	–	–
Balance at end of the financial year	375,000	–	–	–
Exercisable at end of the financial year	–	–	–	–

6. AUDITORS' REMUNERATION

	CONSOLIDATED	
	2010 \$	2009 \$
Amounts received or due and receivable by auditors of the company for:		
Audit services		
KPMG Australia		
– Audit and review of financial statements	90,793	100,000
– Other audit related services	–	–
	90,793	100,000
Other Services		
KPMG Australia		
– Other assurance services	4,655	–
Total Auditors' remuneration	95,448	100,000

KPMG was appointed auditor of the company by a resolution of shareholders at the AGM on 27 November 2008.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

7. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2010 \$	2009 \$
Current:		
Trade receivables	1,606,175	1,414,666
Allowance for doubtful debts	(234,960)	(162,386)
	1,371,215	1,252,280
Other sundry debtors	–	–
	1,371,215	1,252,280
Movement in the allowance for doubtful debts		
Balance at the beginning of the year	162,386	105,293
Amounts written off as uncollectible	(167,341)	(183,295)
Amounts recovered during the year	12,599	13,388
Impairment losses recognised on receivables	227,316	227,000
Balance at the end of the year	234,960	162,386

In determining the recoverability of a trade receivable, engin Limited reviews any debt over the age of 90 days. Using historical trends regarding timing of recoveries, debts that are determined to be impaired are fully provided for. This amount is fully provided for as a doubtful debt. Any receivable under 90 days that management considers unrecoverable is also fully provided for. Accordingly the directors believe that there is no further provision required for impairment than the allowance of doubtful debts. There were no individually significant impaired receivables, all impaired receivables were over 90 days past due.

The Groups exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

8. INVENTORIES

	CONSOLIDATED	
	2010 \$	2009 \$
Finished goods:		
At cost	391,738	393,459
Provision for obsolescence	(151,083)	(212,456)
At net realisable value	240,655	181,003

9. OTHER CURRENT ASSETS

Prepayments	156,247	191,102
Other	–	3,050
	156,247	194,152

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

10. PROPERTY, PLANT AND EQUIPMENT

	CUSTOMER MANAGEMENT & BILLING SYSTEM \$	OTHER PLANT AND EQUIPMENT \$	EQUIPMENT UNDER FINANCE LEASE AT COST \$	TOTAL \$
Gross carrying amount:				
Balance at 1 July 2008	5,051,289	8,456,527	3,390,564	16,898,380
Additions	7,500	113,556	–	121,056
Disposals	–	(19,000)	–	(19,000)
Transfer	–	234,560	(234,560)	–
Balance at 30 June 2009	5,058,789	8,785,643	3,156,004	17,000,436
Additions	7,500	276,328	281,019	564,847
Disposals	–	(278,000)	(2,073,336)	(2,351,336)
Transfer	–	–	–	–
Balance at 30 June 2010	5,066,289	8,783,971	1,363,687	15,213,947
Accumulated depreciation, amortisation & impairment:				
Balance at 1 July 2008	(1,099,759)	(5,441,873)	(1,263,854)	(7,805,486)
Depreciation expense	(1,254,055)	(1,276,604)	(1,276,000)	(3,806,659)
Impairment	–	(1,169,051)	(463,168)	(1,632,219)
Disposals	–	19,000	–	19,000
Transfer	–	(136,814)	136,814	–
Balance at 30 June 2009	(2,353,814)	(8,005,342)	(2,866,208)	(13,225,364)
Depreciation expense	(2,712,475) ^[a]	(335,039)	(200,161)	(3,247,675)
Disposals	–	–	2,073,336	2,073,336
Balance at 30 June 2010	(5,066,289)	(8,340,381)	(993,033)	(14,399,703)
Net book value				
As at 30 June 2009	2,704,975	780,301	289,796	3,775,072
As at 30 June 2010	–	443,590	370,654	814,244

	CONSOLIDATED	
	2010 \$	2009 \$
Aggregate depreciation recognised as an expense during the year:		
Billing system	2,712,475	1,254,055
Plant and equipment	335,039	1,276,604
Equipment under finance lease	200,161	1,276,000
	3,247,675	3,806,659

[a] The useful life of the Billing system has been revised from 5 years in the prior reporting period to 30 months in the current reporting period in keeping with the estimated residual value of the asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

11. ASSETS PLEDGED AS SECURITY

The consolidated entity does not hold title to the equipment under finance lease, which is pledged as security against the finance lease liability.

12. CURRENT TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2010 \$	2009 \$
Trade payables	1,191,057	1,798,129
Other payables and accruals	2,407,215	1,851,541
	3,598,272	3,649,670

13. CURRENT BORROWINGS

Secured

At amortised cost:

Finance lease liabilities (note 11 & 22)	59,790	443,474
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14. CURRENT PROVISIONS

Employee benefits	244,385	250,384
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15. NON-CURRENT BORROWINGS

Secured

At amortised cost:

Finance lease liabilities (note 11 & 22)	192,169	–
Other	142,911	–

16. NON-CURRENT PROVISIONS

Employee benefits	135,306	76,252
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

17. ISSUED CAPITAL

	CONSOLIDATED	
	2010 \$	2009 \$
Fully paid ordinary shares (2010: 12,710,145)	45,064,769	45,064,769

The company does not have authorised capital and issued shares do not have a par value.

On 24 November 2009 the company reduced the number of its shares on issue by consolidating every fifty (50) shares into one (1) share.

	2010		2009	
	NO.	\$	NO.	\$
Fully paid ordinary shares				
Balance at beginning of financial year	635,516,979	45,064,769	635,516,979	45,079,667
After consolidation of Shares 50:1	12,710,145	45,064,769	–	–
Issue of shares	–	–	–	–
Share issue costs	–	–	–	(14,898)
Balance at end of financial year	12,710,145	45,064,769	635,516,979	45,064,769

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

18. RESERVES

	CONSOLIDATED	
	2010 \$	2009 \$
Employee equity-settled benefits reserve		
Balance at beginning of financial year	–	–
Share-based payment - Options	31,452	–
Transfer to share capital	–	–
Balance at end of financial year	31,452	–

ON 30 JUNE 2010 THE COMPANY ISSUED 375,000 OPTIONS.

The employee equity-settled benefits reserve arises on the grant of share options to executives and selected employees under the executive share ownership plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to executives is made in note 5 to the financial statements.

19. (ACCUMULATED LOSSES) / RETAINED EARNINGS

	CONSOLIDATED	
	2010 \$	2009 \$
Balance at beginning of financial year	(39,831,475)	(33,071,274)
Net loss attributable to members of the parent entity	(2,411,643)	(6,760,201)
Balance at end of financial year	(42,243,118)	(39,831,475)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

20. EARNINGS/(LOSS) PER SHARE

For comparative purposes the calculation of EPS and the weighted average number of ordinary shares in this report is reflective of the share consolidation that occurred on 24 November 2009 as if it was effective on the first day of the comparative period.

	CONSOLIDATED	
	2010 CENTS PER SHARE	2009 CENTS PER SHARE
Basic earnings/(loss) per share:		
From continuing operations	(19.0)	(53.2)
Total basic earnings/(loss) per share	(19.0)	(53.2)
Diluted earnings/(loss) per share:		
From continuing operations	(19.0)	(53.2)
Total diluted earnings/(loss) per share	(19.0)	(53.2)

Basic earnings/(loss) per share

The earnings/(loss) and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	CONSOLIDATED	
	2010 \$	2009 \$
(Loss)/Earnings from continuing operations (a)	(2,411,643)	(6,760,201)
	2010 NO.	2009 NO.
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	12,710,145	12,710,145

(a) Earnings/(loss) used in the calculation of total basic earnings/(loss) per share and basic earnings/(loss) per share from continuing operations reconciles to net profit/(loss) in the income statement as follows:

	CONSOLIDATED	
	2010 \$	2009 \$
Net profit/(loss)	(2,411,643)	(6,760,201)

Diluted earnings/(loss) per share

	CONSOLIDATED	
	2010 \$	2009 \$
(Loss)/earnings from continuing operations (a)	(2,411,643)	(6,760,201)
	2010 NO.	2009 NO.
Weighted average number of ordinary shares for the purposes of diluted earnings per share (b)	12,711,172	12,710,145

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

20. EARNINGS/(LOSS) PER SHARE (CONTINUED)

(a) Earnings/(loss) used in the calculation of total diluted earnings/(loss) per share and diluted earnings/(loss) per share from continuing operations reconciles to net profit/(loss) in the income statement as follows:

	2010 \$	2009 \$
Net profit/(loss)	(2,411,643)	(6,760,201)

(b) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	CONSOLIDATED	
	2010 NO.	2009 NO.
Weighted average number of ordinary shares used in the calculation of basic EPS	12,710,145	12,710,145
Shares deemed to be issued for no consideration in respect of:		
Employee options	1,027	—
Weighted average number of ordinary shares used in the calculation of diluted EPS	12,711,172	12,710,145

There were 375,000 employee options on issue at 30 June 2010.

21. FRANKING ACCOUNT

	COMPANY	
	2010 \$	2009 \$
Adjusted franking account balance (tax paid basis)	3,985,319	3,985,319

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

22. LEASES

Finance leases

Leasing arrangements

Finance leases relate to network hardware and computer leases. The consolidated entity has the option to purchase the equipment for a nominal amount at the conclusion of the lease agreements.

Finance lease liabilities

	MINIMUM FUTURE LEASE PAYMENTS		PRESENT VALUE OF MINIMUM FUTURE LEASE PAYMENTS	
	CONSOLIDATED		CONSOLIDATED	
	2010 \$	2009 \$	2010 \$	2009 \$
No later than 1 year	80,914	456,582	59,790	443,474
Later than 1 year and not later than 5 years	229,437	–	192,169	–
Minimum lease payments*	310,351	456,582	251,959	443,474
Less future finance charges	(58,392)	(13,108)	–	–
Present value of minimum lease payments	251,959	443,474	251,959	443,474
Included in the financial statements as:				
Current borrowings (note 13)			59,790	443,474
Non-current borrowings (note 15)			192,169	–
			251,959	443,474

Future lease payments include the aggregate of all lease payments and any guaranteed residual value.

Operating leases

Leasing arrangements

In October 2009 the company entered into a five-year lease for office facilities. Operating leases relate solely to these office facilities with a lease term to October 2014.

	CONSOLIDATED	
	2010 \$	2009 \$
Non-cancellable operating lease payments		
Not longer than 1 year	190,544	72,377
Longer than 1 year and not longer than 5 years	619,257	–
	809,811	72,377

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

23. SUBSIDIARIES

NAME OF ENTITY:	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
		2010 %	2009 %
Parent entity			
engin Limited	Australia		
Subsidiaries			
MIBroadband Pty Limited	Australia	100	100
Innocom Systems Pty Limited ^(a)	Australia	–	100

All entities are members of the tax consolidated group

(a) On 14 October 2009 Innocom Systems Pty Limited, a dormant company in which engin Limited held 100% of the shares was de-registered.

24. SEGMENT INFORMATION

engin Limited operates primarily as a provider of Broadband telephony services within Australia.

25. RELATED PARTY DISCLOSURES

(a) Equity interests in related parties

Equity interests in Controlled Entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 23 of the financial statements.

Equity interests in Joint venture entities

engin has no current interests in joint venture entities.

(b) Key management personnel remuneration

Details of key management personnel remuneration are disclosed in the remuneration report and in note 4 to the financial statements.

(c) Other transactions with key management personnel

There were no other transactions with key management personnel.

(d) Transactions with other related parties

Other related parties include:

- the parent entity
- entities with joint control or significant influence over the group
- associates
- joint ventures in which the entity is a venturer
- subsidiaries
- other related parties.

(e) Transactions involving the ultimate parent entity

During the year ended 30 June 2010 \$10,000 (2009: NIL) was paid to a Seven Group Holdings Limited group company in consideration of secretarial services.

(f) Transactions involving other related parties

engin Limited engaged the services of a Seven Group Holdings Limited group company for printing to the value of \$23,923 (2009: \$26,494). These transactions were on normal commercial terms and conditions.

engin Limited entered into a wholesale relationship with a Seven Group Holdings Limited group company. The associated revenues to 30 June 2010 were \$14,464 (2009: \$Nil)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

25. RELATED PARTY DISCLOSURES (CONTINUED)

(g) Parent entities

The ultimate parent entity of engin Limited is Seven Group Holdings Limited.

The parent entity of engin Limited is Network Investment Holdings Pty Limited.

26. SUBSEQUENT EVENTS

There are no subsequent events to report.

27. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	CONSOLIDATED	
	2010 \$	2009 \$
Cash and cash equivalents	4,643,575	4,250,567

(b) Reconciliation of loss for the period to net cash flows from operating activities

	CONSOLIDATED	
	2010 \$	2009 \$
Loss for the period	(2,411,643)	(6,760,201)
Share of jointly controlled entities' loss (less dividends)	–	–
Depreciation and amortisation of non-current assets	3,247,675	3,806,659
Impairment of assets	–	1,632,219
Interest revenue	(165,806)	(246,016)
Employee equity settled benefits	31,452	–
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase)/decrease in assets:		
Current receivables	(118,933)	(10,018)
Current inventories	(59,652)	540,170
Other current assets	37,905	286,394
Increase/(decrease) in liabilities:		
Current payables	(607,072)	(446,343)
Other current liabilities	549,675	(63,990)
Other non-current liabilities	201,965	(5,399)
Net cash from / (used in) operating activities	705,566	(1,266,525)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

28. FINANCIAL INSTRUMENTS

(a) Significant accounting policies

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

(b) Interest rate risk management

The consolidated entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by limiting the borrowings of the entity to necessary capital expenditure.

Maturity profile of financial instruments

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2010:

2010	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	VARIABLE INTEREST RATE \$	FIXED MATURITY DATES				NON INTEREST BEARING \$	TOTAL \$
			LESS THAN 1 YEAR \$	1-2 YEARS \$	2-3 YEARS \$	3+ YEARS \$		
Financial assets:								
Cash and cash equivalents	4.93	4,643,575	–	–	–	–	–	4,643,575
Trade and other receivables ^(a)	–	–	–	–	–	–	1,371,215	1,371,215
		4,643,575					1,371,215	6,014,790
Financial liabilities:								
Trade and other payables ^(a)	–	–	–	–	–	–	3,598,272	3,598,272
Finance lease liabilities	9.43	–	80,914	67,042	39,300	123,095	–	310,351
Employee benefits ^(a)	–	–	–	–	–	–	379,691	379,691
		–	80,914	67,042	39,300	123,095	3,977,963	4,288,314

2009	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	VARIABLE INTEREST RATE \$	FIXED MATURITY DATES				NON INTEREST BEARING \$	TOTAL \$
			LESS THAN 1 YEAR \$	1-2 YEARS \$	2-3 YEARS \$	3+ YEARS \$		
Financial assets:								
Cash and cash equivalents	3.40	4,250,567	–	–	–	–	–	4,250,567
Trade and other receivables ^(a)	–	–	–	–	–	–	1,252,280	1,252,280
		4,250,567	–	–	–	–	1,252,280	5,502,847
Financial liabilities:								
Trade and other payables ^(a)	–	–	–	–	–	–	3,649,670	3,649,670
Finance lease liabilities	8.00	–	456,582	–	–	–	–	456,582
Employee benefits ^(a)	–	–	–	–	–	–	326,636	326,636
		–	456,582	–	–	–	3,976,306	4,432,888

(a) Due in less than one year

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

28. FINANCIAL INSTRUMENTS (CONTINUED)

Ageing of receivables past due but not impaired

	CONSOLIDATED	
	2010 \$	2009 \$
0-30 days	195,397	58,807
31-60 days	74,385	29,882
61-90 days	6,977	–
Total over due receivables not impaired	276,760	88,689

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity measures credit risk on a fair value basis.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

(d) Fair value of financial instruments

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their respective fair values, determined in accordance with the accounting policies disclosed in note 1 of the financial statements.

(e) Liquidity risk

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

(f) Capital risk management

The Group and company manages its capital to ensure that entities in the Group and company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group and company's overall strategy remains unchanged from 2010.

The capital structure of the Group and company consists of debt, which includes the borrowing disclosed in notes 13 and 15, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 17, 18 and 19 respectively.

Operating cash flows are used to maintain and expand the group's VoIP business, as well as to make routine outflows for repayment of maturing debt.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

29. PARENT ENTITY DISCLOSURES

As at, and throughout the financial year ending 30 June 2010 the parent company of the Group was engin Limited.

	2010 \$	2009 \$
Results of the parent entity		
Profit /(Loss) for the period	(1,700,000)	(15,207)
Other comprehensive income	–	–
Total comprehensive income for the period	(1,700,000)	(15,207)
Financial position of parent entity at year end		
Current assets	10,301,347	11,969,895
Total assets	10,301,347	11,969,895
Current Liabilities	–	–
Total Liabilities	–	–
Total equity of the parent entity comprising of:		
Share Capital	45,064,769	45,064,769
Reserves (Share based payment – options)	31,452	–
Retained earnings	(34,794,874)	(33,094,874)
Total Equity	10,301,347	11,969,895

30. ADDITIONAL COMPANY INFORMATION

engin Limited is a listed public company, incorporated and operating in Australia.

Registered office

Level 2, 38-42 Pirrama Road
Pymont NSW 2009
Tel: (02) 8777 7777

Principal place of business

Level 3, 28 Rodborough Road
Frenchs Forest NSW 2086
Tel: (02) 8985 5800

DIRECTORS' DECLARATION

1 In the opinion of the directors of engin Limited (the Company):

(a) the consolidated financial statements and notes that are contained in page 23 to 43 and the Remuneration report in the Directors' report, set out on pages 12 to 16, are in accordance with the *Corporations Act 2001*, including:

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

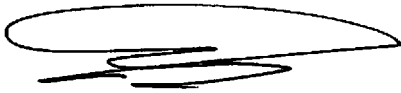
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

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

2 The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.

3 The directors draw attention to Note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



Ian Smith
Chairman

Sydney, 18 August 2010

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report to the members of engin Limited

Report on the financial report

We have audited the accompanying financial report of the Group comprising engin Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the statement of financial position as at 30 June 2010, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 30 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

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

INDEPENDENT AUDITOR'S REPORT

Corporations Act 2001.

Auditor's opinion

In our opinion:

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

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



KPMG



Kenneth Reid
Partner

Sydney

18 August 2010

ADDITIONAL STOCK EXCHANGE INFORMATION

AS AT 30 AUGUST 2010

SHAREHOLDER INFORMATION

Substantial Shareholders

The number of ordinary shares held by Substantial Shareholders as at 30 August 2010 are as follows:

SHAREHOLDER	NO. OF SHARES	%
Network Investment Holdings Pty. Limited	7,429,945	58.46
Direct Group Pty. Limited	726,011	5.71

Distribution of Ordinary Shareholders

CATEGORY (NO.S)	ORDINARY SHAREHOLDERS	OPTIONS
1 – 1,000	2,097	–
1,001 – 5,000	324	–
5,001 – 10,000	64	–
10,001 – 100,000	52	5
100,001 and over	7	–
	2,544	5
Holding less than a marketable parcel	2,140	–

Voting Rights – ordinary shares

On a show of hands, every member present in person or by proxy or attorney, or being a corporation, present by its representative, shall have one vote.

On a poll, every member present in person or by proxy or attorney, or being a corporation, present by its representative, shall have one vote for every share held. There are no voting rights attached to options. Upon exercise of the options, the issued shares will confer full voting rights.

Stock Exchange Listing

The company is listed with the Australian Stock Exchange Limited and the home exchange is Sydney.

On-Market Buy-Back

There is no current on-market buy-back.

Details of Options Issued by Engin Limited

NUMBER ON ISSUE:	NUMBER OF HOLDERS:	NAME AND NUMBER OF OPTIONS HELD BY AN OPTION HOLDER HOLDING 20% OR MORE OF THE OPTIONS IN THIS CLASS:
375,000	5	Mr M Gepp and Mr G Dollar hold 100,000 options each over ordinary shares

ADDITIONAL STOCK EXCHANGE INFORMATION

AS AT 30 AUGUST 2010

TOP 20 HOLDINGS AS AT 30 AUGUST 2010

ORDINARY FULLY PAID HOLDER NAME	NUMBER	PERCENTAGE
Network Investment Holdings Pty Limited	7,429,945	58.46
Direct Group Pty Limited	726,011	5.71
Avondale Management Limited	562,001	4.42
Interfine Investments Pty Limited	355,438	2.80
Jean Gamble	143,207	1.13
Rotherleigh Properties Pty Limited	114,285	0.90
Tresdam Pty Limited	103,349	0.81
Angus Martin	99,570	0.78
John Waterman	87,130	0.69
Henley Group Holdings Limited	85,714	0.67
Michael & Birgit Roth	76,176	0.60
En-Dev Finance Consultants Pty Limited	76,000	0.60
Don & Ann Lazzaro	70,989	0.56
Geoffrey & Catherine Sinclair	70,000	0.55
Theo Clark	54,179	0.43
Jvmp Investments Pty Limited	51,658	0.41
Stuart Howes	50,001	0.39
Shirley Mc Kenzie	48,912	0.39
Marlin Super Pty Limited	40,750	0.32
John E Gill Trading Pty Limited	37,930	0.30
Totals For Top 20	10,283,245	80.91
Security Totals	12,710,145	

CORPORATE DIRECTORY

Company Secretary

Mr J Kinninmont

Shareholder e-mail contact

investorrelations@engin.com.au

Registered office

Level 2,
38-42 Pirrama Road
Pyrmont NSW 2009
Tel: (02) 8777 7777
ACN: 063 582 990
ABN: 46 063 582 990

Principal administration office

Level 3,
28 Rodborough Road
Frenchs Forest, NSW, 2086
Tel: (02) 8985 5800

Share registry

Registries Limited
PO Box R67, Royal Exchange
Sydney NSW 1223

Auditors

KPMG

Bankers

Westpac Banking Corporation

Solicitors

Freehills

