

Mobile Innovations Limited

Preliminary Final Report Of *Mobile Innovations Limited* for the Financial Year Ended 30 June 2004

(ACN 063 582 990)

This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period: Financial Year Ended 30 June 2004

Previous Corresponding Period: Financial Year Ended 30 June 2003

Mobile Innovations Limited

RESULTS FOR ANNOUNCEMENT TO THE MARKET For the year ended 30 June 2004.

Revenue and Net Profit		<i>Percentage Change</i>	Amount
		%	\$'000
Revenue from ordinary activities	Down	3.6%	To 16,440
Profit from ordinary activities after tax attributable to members	Up	48%	To 2,846
Net profit attributable to members	Up	48%	To 2,846
 Balance Sheet			
Cash At Bank	Up	44%	To 7,187
Net Assets	Up	39%	To 10,063

Dividends (Distributions)	<u>Amount per security</u>	<u>Franked amount per security</u>
No dividends have been declared since the start of the financial year. A 1.5 cent per share fully franked One-Off Special Dividend was paid in July 2003.	-	-

Brief Explanation of Revenue, Net Profit and Dividends

Mobile Innovations' sales revenue decreased by 3.6 per cent during the year ended 30 June 2004. The decrease was primarily due to a lower customer base under management.

The company's net profit after tax increased by 48 per cent during the year ended 30 June 2004 to \$2.8 million, due primarily to the settlement of the ACM dispute with Vodafone and the improved contribution from the Look Mobile joint venture entities.

The company's cash holding at 30 June 2004 was \$7.2million, representing an increase of \$2.2million compared to 30 June 2003.

For more detail, please refer to Note 3 - Commentary On Financial Results.

Mobile Innovations Limited

Statement of Financial Performance For the Financial Year Ended 30 June 2004

	Note	Consolidated	
		2004 \$'000	2003 \$'000
Revenue from ordinary activities		16,440	17,056
Share of net profits of associates and joint ventures accounted for using the equity method		1,198	819
Changes in inventories of finished goods and work in progress		5	(50)
Raw materials and consumables used		(1,325)	(1,451)
Marketing expenses		(483)	-
Employee costs		(5,661)	(5,756)
Communications expense		(1,392)	(1,803)
Financial institution costs		(676)	(967)
Occupancy costs		(479)	(578)
Bad debt expense and collection costs		(316)	(405)
Retrenchment costs		-	(393)
Legal expenses		(974)	(935)
Depreciation and amortisation expense		(1,758)	(1,920)
Borrowing costs		(38)	(49)
Other expenses from ordinary activities		(1,071)	(1,167)
Profit From Ordinary Activities Before Income Tax Expense	2	3,470	2,401
Income tax expense relating to ordinary activities		(624)	(477)
Profit From Ordinary Activities After Related Income Tax Expense		2,846	1,924
Net Profit		2,846	1,924
Net Profit Attributable to Members of the Parent Entity		2,846	1,924
Total Changes In Equity Other Than Those Resulting From Transactions With Owners As Owners		2,846	1,924

Mobile Innovations Limited

**Statement of Financial Position
As at 30 June 2004**

	Note	Consolidated	
		2004 \$'000	2003 \$'000
Current Assets			
Cash assets	6	7,187	4,999
Receivables		1,544	1,917
Inventories		23	18
Other		189	142
Total Current Assets		8,943	7,076
Non-Current Assets			
Investments accounted for using the equity method		135	437
Property, plant and equipment		2,579	3,335
Deferred tax assets		1,191	638
Total Non-Current Assets		3,905	4,410
Total Assets		12,848	11,486
Current Liabilities			
Payables		1,038	2,791
Interest-bearing liabilities		255	224
Current tax liabilities		920	435
Provisions		303	301
Other		38	37
Total Current Liabilities		2,554	3,788
Non-Current Liabilities			
Interest-bearing liabilities		106	361
Provisions		125	119
Total Non-Current Liabilities		231	480
Total Liabilities		2,785	4,268
Net Assets		10,063	7,218
Equity			
Contributed equity		221	221
Retained profits	5	9,842	6,997
Total Equity		10,063	7,218

Mobile Innovations Limited

**Statement of Cash Flows
For the Financial Year Ended 30 June 2004**

	<u>Note</u>	<u>Consolidated</u>	
		<u>2004</u> <u>\$'000</u>	<u>2003</u> <u>\$'000</u>
<i>Cash Flows From Operating Activities</i>			
Receipts from customers		18,016	18,071
Payments to suppliers and employees		(14,113)	(13,952)
Dividends received		1,500	900
Interest received		428	103
Interest and other costs of finance paid		(38)	(49)
Income tax paid		(691)	(1,013)
Net cash provided by operating activities	6(c)	<u>5,102</u>	<u>4,060</u>
<i>Cash Flows From Investing Activities</i>			
Payment for property, plant and equipment		(1,002)	(155)
Payment for businesses		-	-
Net cash used in investing activities		<u>(1,002)</u>	<u>(155)</u>
<i>Cash Flows From Financing Activities</i>			
Proceeds from issues		-	112
Dividends paid		(1,688)	-
Repayment of borrowings		(224)	(213)
Net cash used in financing activities		<u>(1,912)</u>	<u>(101)</u>
<i>Net Increase In Cash Held</i>		2,188	3,804
<i>Cash At The Beginning Of The Financial Year</i>		4,999	1,195
<i>Cash At The End Of The Financial Year</i>	6(a)	<u>7,187</u>	<u>4,999</u>

Mobile Innovations Limited

Notes to the Financial Statements For the Year Ended 30 June 2004

Note	Contents
1	Basis of Preparation
2	Profit from Ordinary Activities
3	Commentary on Consolidated Results
4	Sales of Assets
5	Retained Profits
6	Notes to the Statement of Cash Flows
7	Details relating to Dividends (Distributions)
8	Earnings Per Share
9	Net Tangible Assets per Security
10	Details of Entities Over Which Control Has Been Gained or Lost
11	Details of Associates and Joint Venture Entities
12	Segment Information
13	Subsequent Events
14	Other Significant Information
15	Information on Audit or Review

Mobile Innovations Limited

Notes to the Financial Statements For the Year Ended 30 June 2004

1. Basis of Preparation

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The accounting policies adopted in the preparation of the preliminary final report are consistent with those adopted and disclosed in the 2003 annual financial report.

Consolidated	
2004	2003
\$'000	\$'000

2. Profit From Ordinary Activities

Profit from ordinary activities before income tax includes the following items of expense:

(a) Expenses

Cost of sales	1,320	1,501
Net bad and doubtful debts	109	250
Depreciation of non-current assets	1,544	1,706
Amortisation of non-current assets	214	214

**Notes to the Financial Statements
For the Year Ended 30 June 2004**

3. **Commentary on Consolidated Results**

Directors Comments

The Board of Mobile Innovations ("the Company") is pleased to report a net profit after tax for the year ended 30 June 2004 of \$2.8 million, which represents an increase of 48% compared to the June 2003 figure. This result is largely due to:

- \$2.7 million of damages and interest paid by Vodafone following settlement of the ACM Dispute, which was awarded by the Court Of Appeal of NSW on 20 February 2004.
- Improved contribution from Look Mobile (50% joint venture entities) of \$1.3 million compared to \$0.8 million the previous year.
- Vodafone setting a target of 200 connections for the September 2003 Quarter, thereby resulting in a recovery of overhead expenses of \$560,000 from Vodafone.
- Continued operating efficiency of the customer management core business.

The reported profit includes \$0.75 million worth of expenses relating to the trial of the Company's digital voice network and \$0.9 million in litigation expenses.

The company's cash balance at 30 June 2004 was \$7.2 million (an increase of \$2.2million compared to 30 June 2003). The increase in cash reserves has occurred despite:

- Payment of a \$1.7 million (1.5 cents per share) fully franked special one-off dividend on 28 July 2003.
- Total expenditure of \$1.5 million relating to the trial of the Company's digital voice network.
- Expenditure of \$0.9 million on legal expenses.

The Company has over 86,000 customers (30 June 2003: 129,000 customers) under management, of which 26,000 customers (30 June 2003: 37,000 customers) were acquired by Look Mobile.

Vodafone Dispute

On 20 February 2004, the Court of Appeal of NSW upheld a substantial portion of Vodafone's appeal against the earlier decision by Justice Einstein in the Supreme Court of NSW, in which the Company had been awarded nine separate heads of damage against Vodafone and \$14.2 million in damages.

The Court of Appeal agreed with Vodafone's appeal submission that, in setting the Company targets of zero new connections for certain quarters, Vodafone had complied with the terms of the parties' Agent Service Provider (ASP) Agreement.

The Company had some success in the proceedings overall, but much less than its original claims. The Court of Appeal upheld Justice Einstein's finding that the Company was entitled to damages in the sum of \$2.467 million plus interest of \$0.2 million regarding a breach by Vodafone of an Additional Customer Management (ACM) Agreement, in relation to which Vodafone had failed to provide 30,000 additional customers to the Company.

The amount of damages plus interest received for the full-year ended 30 June 2004 was \$2.669 million.

**Notes to the Financial Statements
For the Year Ended 30 June 2004**

3. **Commentary on Consolidated Results** (continued)

Vodafone Dispute (Continued)

On 30 July 2004, MOB announced that it had concluded negotiations with Vodafone on the substantive commercial issues to terminate the Agent Service Provider (ASP) agreement between the parties. The understandings are as yet non-binding until such time that the parties execute a deed of termination and satisfy all the conditions precedent, which is expected by late September 2004.

This is discussed in more detail in the Subsequent Events Note 13.

New Business Development

In February of this year, the Board of Mobile Innovations Limited advised shareholders that it had committed \$2 million in funding to trial a digital voice service for consumers. This service enables consumers, who have a broadband connection, to make telephone calls over the Internet. M!Broadband commenced the consumer trial of its digital voice services designed to operate on existing broadband internet connections during March 2004. The loan funds and seed capital have been utilised by M!Broadband to facilitate this consumer trial.

On 29 March 2004, Mobile Innovations Limited was granted a carrier license to offer this service. As a result of the success of the trial, the board of MOB have committed further funding of \$5 million to commercialise the digital voice product. This business venture is expected to be the growth vehicle for the Company moving forward.

This is discussed in more detail in the Subsequent Events Note 13.

Look Mobile

During the year Vodafone ceased supporting new acquisitions through the Look Mobile Limited distribution channel by changing its distribution model. A new distribution model has been developed which results in new customers being connected to the Vodafone billing system directly, thereby not requiring Mobile Innovations to provide customer management services to new acquisitions. A new company was established in April 2004 called Look Mobile Distribution Pty Limited which runs the new business model.

Mobile Innovations owns 50 per cent of the profit sharing equity in Look Mobile Distribution Pty Limited, but is not entitled to representation on the Board of the new entity and has no voting rights. Despite the cessation of new connections of the previous business model, the increase in profit has allowed Look Mobile Limited to pay a total \$1.5 million in dividends to Mobile Innovations during the year.

Mobile Innovations Limited

**Notes to the Financial Statements
For the Year Ended 30 June 2004**

	2004 \$'000	2003 \$'000
4. Sales of Assets		
Sales of assets in the ordinary course of business have given rise to the following profits and losses:		
Net Profits		
Property, plant and equipment	-	-
	-	-
Net Losses		
Property, plant and equipment	-	154
	-	154
5. Retained Profits		
Balance at beginning of financial year	6,997	6,761
Net profit attributable to members of the parent entity	2,846	1,924
Dividends accrued for or paid	-	(1,688)
Balance at end of financial year	9,843	6,997

Mobile Innovations Limited

Notes to the Financial Statements For the Year Ended 30 June 2004

	2004	2003
	\$'000	\$'000
6. Notes to the Statement of Cash Flows		
<i>(a) Reconciliation of Cash</i>		
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash	7,187	4,999
	<hr/>	<hr/>
	7,187	4,999
	<hr/>	<hr/>
<i>(b) Cash Balances Not Available for Use</i>		
Security Deposits	83	80
	<hr/>	<hr/>
	83	80
	<hr/>	<hr/>

Mobile Innovations Limited

**Notes to the Financial Statements
For the Year Ended 30 June 2004**

	2004 \$'000	2003 \$'000
6. Notes to the Statement of Cash Flows (continued)		
<i>(c) Reconciliation of Profit From Ordinary Activities After Related Income Tax to Net Cash Flows From Operating Activities</i>		
Profit from ordinary activities after related income tax	2,846	1,924
Share of joint venture entities profit (less dividends)	302	81
Fixed asset write-offs	-	154
Depreciation and amortisation of non-current assets	1,758	1,920
Increase/(decrease) in current tax liability	485	(1,365)
Increase/(decrease) in deferred tax balances	(553)	829
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase)/decrease in assets:		
Current receivables	373	708
Current inventories	(5)	50
Other current assets	(47)	(143)
Increase/(decrease) in liabilities:		
Current trade payables	(65)	(118)
Other current liabilities	2	(7)
Other non-current liabilities	6	27
Net cash from operating activities	<u>5,102</u>	<u>4,060</u>

Mobile Innovations Limited

**Notes to the Financial Statements
For the Year Ended 30 June 2004**

7. Details Relating to Dividends (Distributions)

		Date dividend payable	Amount per security ¢	Amount per security of foreign sourced dividend ¢
Special dividend	2004	-	-	-
	2003	28/07/2003	1.5	-
Total	2004	-	-	-
	2003	28/07/2003	1.5	-

Total dividend (distribution) per security (interim plus final)

	2004 ¢	2003 ¢
Ordinary securities (each class separately)	-	1.5

Interim and final dividend (distribution) on all securities

	2004 \$'000	2003 \$'000
Ordinary securities (each class separately)	-	1,688
Total	-	1,688

Mobile Innovations Limited

Notes to the Financial Statements For the Year Ended 30 June 2004

7. Details Relating to Dividends/(Distributions) (continued)

Dividend Reinvestment Plans

The dividend or distribution plans shown below are in operation.

N/A

The last date(s) for receipt of election notices for the dividend or distribution plans

N/A

8. Earnings Per Share

	2004 ¢ per share	2003 ¢ per share
Basic EPS	2.53	1.73
Diluted EPS	2.53	1.72

Basic Earnings per Share

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

	2004 \$'000	2003 \$'000
Earnings (a)	2,846	1,924

	2004 No. '000	2003 No. '000
Weighted average number of ordinary shares (b)	112,512	111,045

Mobile Innovations Limited

**Notes to the Financial Statements
For the Year Ended 30 June 2004**

8. Earnings Per Share (continued)

(a) Earnings used in the calculation of basic earnings per share reconciles to net profit in the statement of financial performance as follows:

	2004 \$'000	2003 \$'000
Net profit	2,846	1,924
Earnings used in the calculation of basic EPS	2,846	1,924

Diluted Earnings per Share

The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows:

	2004 \$'000	2003 \$'000
Earnings (a)	2,846	1,924

	2004 No. '000	2003 No. '000
Weighted average number of ordinary shares and potential ordinary shares (b)	112,512	111,721

Mobile Innovations Limited

Notes to the Financial Statements For the Year Ended 30 June 2004

8. Earnings Per Share (continued)

- (a) Earnings used in the calculation of diluted earnings per share reconciles to net profit in the statement of financial performance as follows:

	2004 \$'000	2003 \$'000
Net profit	2,846	1,924
	<u>2,846</u>	<u>1,924</u>

- (b) Weighted average number of ordinary shares and potential ordinary shares used in the calculation 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:

	2004 No. '000	2003 No. '000
Weighted average number of ordinary shares used in the calculation of basic EPS	112,512	111,045
Employee Options	-	676
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	<u>112,512</u>	<u>111,721</u>

Mobile Innovations Limited

**Notes to the Financial Statements
For the Year Ended 30 June 2004**

9. Net Tangible Assets Per Security

	2004 cents	2003 cents
Net tangible assets per security	8.9	6.5

10. Details of Entities Over Which Control Has Been Gained or Lost

Control gained over entities

Name of entity (or group of entities)

N/A

Date control gained

N/A

Contribution of the controlled entity (or group of entities) to profit/(loss) from ordinary activities during the period, from the date of gaining control.

**2004
\$'000**

NIL

Net profit/(loss) of the controlled entity (or group of entities) for the whole of the previous corresponding period.

**2003
\$'000**

NIL

Mobile Innovations Limited

**Notes to the Financial Statements
For the Year Ended 30 June 2004**

10. Details of Entities Over Which Control Has Been Gained or Lost
(continued)

Loss of control of entities

Name of entity (or group of entities)

N/A

Date control lost

N/A

**2004
\$'000**

Contribution of the controlled entity (or group of entities) to profit/(loss) from ordinary activities during the period, to the date of losing control.

NIL

**2003
\$'000**

Contribution of the controlled entity (or group of entities) to profit/(loss) from ordinary activities for the whole of the previous corresponding period.

NIL

11. Details of Associates and Joint Venture Entities

Name of Entity	Ownership Interest		Contribution to net profit	
	2004 %	2003 %	2004 \$'000	2003 \$'000
Associates	-	-	-	-
Joint Venture Entities				
Look Mobile Limited	50	50	1,198	819
Aggregate Share of Profits	N/A	N/A	1,198	819

Mobile Innovations Limited

Notes to the Financial Statements For the Year Ended 30 June 2004

12. Segment Information

Primary segment information was previously geographical due to the New Zealand operation. The segments are now split by industry, between the Mobile Innovations business (primarily involved in customer management of mobile phone customers on behalf of Vodafone), and the new MIBroadband business which operates as a provider of telecommunication Voice Services.

Information on Business Segments

	Revenues from External Customers		Results		Assets	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<i>Mobile Innovations Limited</i>	17,205	17,772	3,835	2,347	9,254	10,848
<i>MIBroadband Pty Limited</i>	5	-	(755)	-	824	-
<i>Total segments</i>	17,210	17,772	3,080	2,347	10,078	10,848
<i>Eliminations</i>	-	-	-	-	1,579	-
<i>Unallocated</i>	428	103	390	54	1,191	638
<i>Profit from ordinary activities before income tax expense</i>			3,470	2,401		
<i>Income tax expense relating to ordinary activities</i>			(624)	(477)		
<i>Net Profit</i>			2,846	1,924		
	17,638	17,875	2,846	1,924	12,848	11,486

	Liabilities		Depreciation		Acquisition of Assets	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<i>Mobile Innovations Limited</i>	1,504	3,248	1,718	1,920	194	155
<i>MIBroadband Pty Limited</i>	1,579	-	40	-	808	-
<i>Total segments</i>	3,083	3,248	1,758	1,920	1,002	155
<i>Eliminations</i>	(1,579)	-	-	-	-	-
<i>Unallocated</i>	1,281	1,020	-	-	-	-
	2,785	4,268	1,758	1,920	1,002	155

Mobile Innovations Limited

Notes to the Financial Statements For the Year Ended 30 June 2004

12. Segment Information (continued)

Other Segment Information

	Australia	
	2004 \$'000	2003 \$'000
<i>Carrying value of investments accounted for using the equity method</i>	135	437
<i>Share of net profit of associates & joint venture entities accounted for under the equity method</i>	1,198	819

**Notes to the Financial Statements
For the Year Ended 30 June 2004**

13. Subsequent Events

Vodafone

On 30 July 2004, MOB announced that it had concluded negotiations with Vodafone on the substantive commercial issues to terminate the Agent Service Provider (ASP) agreement between the parties. The understandings are as yet non-binding until such time that the parties execute a deed of termination and satisfy all the conditions precedent, which is expected by late September 2004.

The proposed deed will incorporate the following terms:

- ASP agreement will terminate
- Consent to orders that the proceedings before both the Supreme Court and High Court be dismissed
- Vodafone will pay MOB \$13.2 million (plus GST) in three instalments by 1 April 2005
- Transition arrangements for the transfer of customers, whereby MOB will be paid its costs and a performance payment

MOB and Vodafone have put on hold the current issues before the Supreme Court until 3 September 2004, whilst deeds and agreements are finalised. Both parties will request an extension from the Supreme Court until late September 2004.

Subject to settlement with Vodafone, and the funds being received, the Board of MOB intends to distribute to shareholders by way of a fully franked dividend a substantial component of the termination proceeds. The dividend will be paid during the financial year ending 30 June 2005, after tax and termination costs have been determined.

New Business Development

On 16th August 2004, the Board of MOB committed further funding of \$5 million to commercialise the digital voice product. This business venture is expected to be the growth vehicle for the Company moving forward.

In August 2004, Mobile Innovations Limited released the first fully functional broadband telephony service to Australian consumers. The service, allows consumers to make calls to and receive calls from any landline or mobile phone over their broadband Internet connection using Voice over Internet Protocol (VoIP), assisting consumers to reduce their phone bills by up to 40 per cent.

Unlike other VoIP offerings, the MIBroadband product is not restricted to a peer-to-peer system. Consumers can use their normal home phone handset to make and receive calls to anyone at anytime, and do not have to log onto the Internet in order for the service to operate.

Mobile Innovations Limited

**Notes to the Financial Statements
For the Year Ended 30 June 2004**

14. Other Significant Information

Going Concern

The Board of Mobile Innovations Limited believe that the consolidated entity will be able to pay its debts as and when they fall due for the foreseeable future. There are adequate cash reserves in the entity to cover the expected costs of settlement as well as further investment in the MIBroadband entity.

International Financial Reporting Standards

Mobile Innovations Limited (MOB) will be required to adopt the Australian equivalents to International Financial Reporting Standards (IFRS) in its first fully compliant financial statements for the year ending 30 June 2006. Associated with the release of the 2004 financial report, the Company intends to provide a Note to the accounts which outlines the key areas of accounting policy change as they relate to MOB. At this stage it is not expected that the Company will be in a position to provide a quantification of the impacts.

15. Information on Audit or Review

This preliminary final report is based on accounts to which one of the following applies.

- | | | | |
|-------------------------------------|--|--------------------------|---|
| <input type="checkbox"/> | The accounts have been audited. | <input type="checkbox"/> | The accounts have been subject to review. |
| <input checked="" type="checkbox"/> | The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> | The accounts have not yet been audited or reviewed. |

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

N/A

Description of dispute or qualification if the accounts have been audited or subjected to review.

N/A