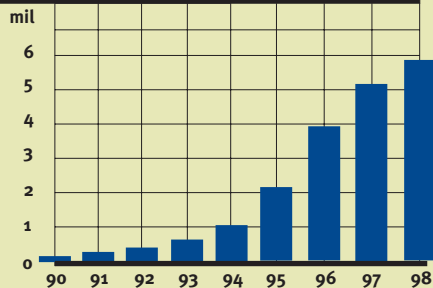


Highlights

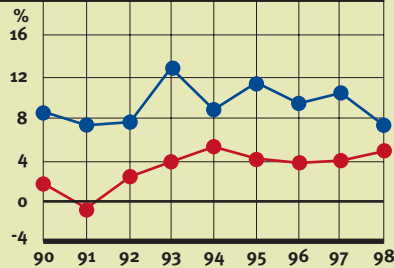
Australian Mobile Subscribers



■ Australian Subscribers

Source: Paul Budde Communications
Telecommunications Strategies
in Australia 1998/1999

**Australian GDP Growth vs
Telecommunications Growth**

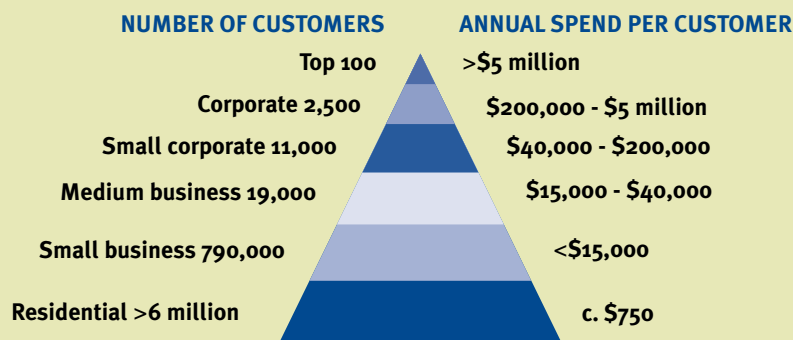


● Gross Domestic Product Growth

● Telecommunications Growth

Source: Australian Bureau of Statistics 1999

Australian Telephony Customer Analysis



Source: Paul Budde Communications, Telecommunications Strategies in Australia 1998/1999

Operational

- Achievement of over 107,000 subscribers
- Sales Revenue of \$41.2 million
- Earnings before interest and tax (EBIT) of \$4.0 million
- Net Tangible Assets (NTA) of \$2.4 million

A SOLID FINANCIAL RESULT IN LINE WITH OFFER DOCUMENT FORECASTS

Strategic

- Agreement announced on 6 September to trial Mobile Direct Marketing in New Zealand for Vodafone New Zealand
- On 22 September Mobile Innovations acquired the Long Distance reselling customer base of G3 utilising the Long Distance telephone services of C & W Optus.

IMPORTANT ADVANCES IN STRATEGIC INITIATIVES

Chairman's Statement



Dear Shareholder,

This is the first annual report for Mobile Innovations Limited since the company listed on the Australian Stock Exchange on 25 June 1999.

While there has only been a short period between listing and this report, your company has made considerable progress.

I am pleased to report that sales revenue for the period was \$41.2 million, 3.5% ahead of forecast revenue per the June 1999 prospectus. The profit before tax from our ongoing business for the 9 months to 30 June 1999 (the period that the company has operated solely as an Agent Service Provider for Vodafone) was \$3.5 million and we had over 107,000 mobile phone subscribers as at 30 June 1999. These profit results are in line with the forecasts included in the Offer Document issued at the time of listing.

We are well on track to achieve our forecast earnings before tax of \$8.0 million and subscriber numbers of 160,000 for the year ended 30 June 2000.

It is particularly pleasing to report that the two main strategic initiatives outlined in the Offer Document have been significantly advanced.

Sales revenue for the period was \$41.2 million, 3.5% ahead of forecast revenue

On 6 September 1999, the company announced an agreement with Vodafone New Zealand to trial the company's marketing model in New Zealand. If this is successful after three months, a long-term contract will be entered into to provide Vodafone with similar services in New Zealand to those provided in Australia.

On 22 September, the company purchased the long distance customer base of G3 utilising the long distance telephone services



of C&W Optus and is currently finalising a long distance reseller agreement with C&W Optus. The importance of this acquisition is that the relationship with C&W Optus will enable us to market long distance services to our extensive customer base. The ultimate objective is to provide our customers with one bill covering all their telephony needs.

Mr Bob Mansfield resigned from our Board on 31 August coinciding with his acceptance of the position of Chairman elect of Telstra Corporation Ltd. In the short period of Bob's tenure he contributed significantly to the development of the company. We are sorry to have lost Bob's services, thank him for his valuable contribution and wish him well in this new role. We are seeking a suitable replacement for Bob on the Board.

Your company has a very experienced and dedicated staff who continue to work extremely hard under the guidance of our Managing Director, Nigel Bramwell. The Board wishes to acknowledge and thank the staff for their effort particularly during the challenging transition to a listed company.

I look forward to welcoming you to our Annual General Meeting which will be held on 25 November 1999.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Will Jephcott".

Will Jephcott

Chairman

Sydney, 28th September 1999

Managing Director's Review



In our Offer Document we foreshadowed a full year net profit after tax and abnormal items of \$18.04 million, and a subscriber base in excess of 107,000. Both targets were achieved.

INTRODUCTION

In our Offer Document we foreshadowed a full year net profit after tax and abnormal items of \$18.04 million, and a subscriber base in excess of 107,000. Both targets were achieved. Other key prospectus forecasts which were also met include:

- Our average annualised churn rate remained within our target of between 24% and 25%
- Price competition for the period to 30 June 1999 remained consistent with historical trends
- There were no special marketing initiatives by competitors.

Perhaps most importantly we commenced the implementation of the growth strategy outlined in the Offer Document, announcing with C&W Optus in September both the

commencement of operations in New Zealand and the in principle agreement to acquire a Long Distance subscriber base connected to C&W Optus.

RELATIONSHIP WITH INNOVATIONS

The relationship with Innovations is one of the key strengths of the company. In the last year marketing activity to the Innovations base has continued to deliver subscribers on a highly cost effective basis.

In the coming year the relationship will be developed further, in particular by offering mobile products to the Innovations New Zealand base for the first time, and by offering Long Distance service to the Innovations customer base in Australia.

Managing Director's Review (cont)

Mobile Innovations continues to monitor costs extremely carefully, and where possible, to drive down costs in all areas

COST CONTROL

Another of the company's key strengths is in the area of cost control. Mobile Innovations continues to monitor costs extremely carefully, and where possible, to drive down costs in all areas. As the various operations grow, economies of scale will have an increasingly beneficial effect. Mobile Innovations ability to deliver high quality customer care and management at a highly competitive cost will ensure that it retains its position as one of Australia's most efficient re-sellers of communications services.

DIVIDEND

A \$7 million fully franked dividend was paid to the Haley BV and Innovations Holdings Pty Limited ("the original shareholders") from retained profits on July 1 1999. As stated in the Offer Document, the Directors do not intend to declare a dividend payable to incoming shareholders for the year ended 30 June 1999. The Directors will consider the payment of a dividend for the



year ended 30 June 2000, subject to cash requirements for the growth of the business and any new initiatives.

SIGNIFICANT DEVELOPMENTS SINCE BALANCE DATE

Since 30 June, the Company has signed two significant agreements, both of which are in line with the strategy outlined in the Offer Document. These agreements are the first steps towards broadening the base of the company by building on the company's strengths in new areas and markets.

NEW ZEALAND

Firstly, assuming the successful completion of a three month trial period, Mobile Innovations will enter into a long-term agreement with Vodafone New Zealand, covering the acquisition of pre-pay and post-pay subscribers. The penetration rate of mobile telephones in New Zealand is relatively low by world standards at 18%, a rate that is expected to grow significantly in the coming year. Vodafone New Zealand operates the only GSM (Global System for Mobile Communications) network in New Zealand.

The cost of establishing the necessary infrastructure will be reduced due to the company's relationship with Innovations, and the ability to share resources.

LONG DISTANCE SERVICE

Secondly, Mobile Innovations purchased the Long Distance subscriber base of G3 currently connected to C&W Optus. We believe that the purchase, which represents excellent value, offers Mobile Innovations the following advantages:



- The rapid roll out of a Long Distance offering to customers of both Mobile Innovations and Innovations;
- The building of a relationship with C&W Optus, and a discount level on calls not readily available to new Service Providers;
- A head start in Long Distance Service Provision, as the acquisition already has between 5,500 and 6,000 active subscribers; and
- The opportunity to reduce churn in the existing business by developing a single bill strategy.

Mobile Innovations is in a particularly strong position in the current telecommunications market

STAFF

I would like to thank the senior executives and staff of Mobile Innovations for their efforts over the last twelve months, particularly during the float process which significantly added to the workload of executives, who in addition to their normal duties, were required to complete the formalities inevitable with such a process.

CONCLUSION

The year ended 30 June 1999 was one of significant growth and change, with the Company making the transition from Service Provider to Agent Service Provider for Vodafone, and more recently listing on the Australian Stock Exchange.

The current financial year also offers many exciting challenges. The main focus of the management will be, in addition to the new areas outlined above, to continue to build the customer base of the existing business as strongly and cost effectively as possible and to offer an increasingly wide variety of services to those customers. Mobile Innovations is in a particularly strong position in the current telecommunications market, and has the opportunity to achieve real market reach in the consumer and residential area, on a highly cost effective basis.

In addition, the Company's financial position is strong with over \$6 million in cash after payment of a dividend to the original shareholders on 1 July 1999.

It continues to trade strongly, generating surplus cash. These funds will be used to:

- fund organic growth;
- fund acquisitions and other business initiatives such as Long Distance Reselling;
- enhance the Billing and Customer Service platform; and
- pay the Company's tax liabilities.

At this time the Company expects to achieve the financial forecast for the year ended 30 June 2000 as set out in the Offer Document.

History of Operations

During early 1994, the founding shareholders of Mobile Innovations decided to investigate the feasibility of commencing a direct marketing operation selling mobile telephony services in Australia. In seeking a network to partner such an operation, Mobile Innovations decided that Vodafone offered the greatest opportunity, by virtue of its proven international record and its

Innovations has for many years been a leading Australian direct marketing company, with a database of 2 million customers in Australia and New Zealand.

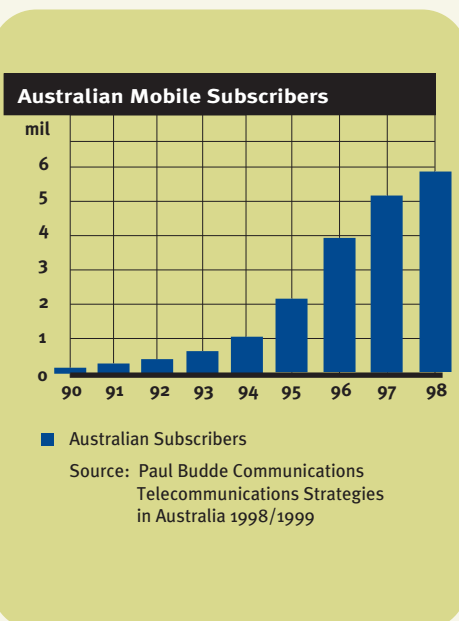
aggressive expansion plans in the Australian market. The two founding shareholders - Independent Cellphones Ltd and Innovations Direct Pty Limited ("Innovations") - each held 50% of the shares in Mobile Innovations.

Independent Cellphones Ltd was one of the

pioneers of mobile phone direct marketing in the UK, selling mobile telephony services through magazines and newspapers and also by forming alliances with strategic marketing partners such as American Express. Innovations has for many years been a leading Australian direct marketing company, with a database of 2 million customers in Australia and New Zealand. This combination of market-specific international expertise and a local infrastructure created a solid platform for a mobile phone direct marketing company.

The Shares held by Independent Cellphones Ltd and Innovations Direct Pty Limited were subsequently transferred to associated companies, Haley BV and Innovations Holdings Pty Limited ("the original shareholders")

The 15 months from April 1994 to June 1995 were characterised by intensive testing of direct marketing media and establishing end-user pricing for handsets. There was also a strong focus on developing marketing and administrative software.



By the end of June 1998, the Company had demonstrated the effectiveness of its marketing strategies, having achieved a customer base of over 66,000 subscribers. However, to further maximise the growth opportunities in the rapidly changing mobile telecommunications market, Vodafone and Mobile Innovations entered into the Agent Service Provider ("ASP") Agreement whereby the relationship changed from Mobile Innovations being a service provider to an Agent Service Provider.

Under the ASP Agreement, Mobile Innovations is responsible for acquiring and managing subscribers, while ownership of the subscriber contract rests with Vodafone. Vodafone pays the Company the costs of acquiring the subscriber, plus an additional margin. Vodafone also pays a fixed fee per Vodafone subscriber under management. The customer acquisition margin is a volume dependent, fixed dollar margin that is adjusted for increases in the Consumer Price Index. Under these arrangements, Mobile Innovations does not earn time-based call revenue.

Mobile Innovations has the right to sell non-competing products and services to the Vodafone customer base it manages. Any such sales can be invoiced on the same account as that issued for mobile telephony services.

When the 10 year ASP Agreement was signed on 2 October 1998, Mobile Innovations transferred the contractual rights to just under 78,000 subscribers to Vodafone and contracted the Company to continue managing the subscribers that it had acquired as a service provider. Subscriber growth has continued since the commencement of the ASP Agreement with subscribers as at 30 June 1999 numbering in excess of 107,000. As a result of this growth, the Company intends to move to larger premises in October 1999.



Business Overview

The strength of Mobile Innovations can be summarised into three key operational features:

- Cost effective growth driven by targeted direct marketing techniques;
- Efficient customer management systems made possible by centralisation and computerisation
- A strong focus on cost control and risk management.

The Company's skills are firmly focused on mobile telephony and the ASP Agreement with Vodafone. These skills will also be important in achieving success in any potential diversification by the Company into other forms of telecommunications and Internet services in the future.

THE AGENT SERVICE PROVIDER AGREEMENT

The Company's relationship with Vodafone is governed by a 10 year ASP Agreement which commenced on 2 October 1998. The core purpose of the ASP Agreement is to harness Mobile Innovations' direct marketing skills in order to achieve Vodafone's marketing objectives as cost effectively as possible. As such, interaction with Vodafone is continuous and at a number of levels.

Formal quarterly market review and planning meetings are held to agree



strategies, subscriber growth targets and quarterly cost budgets. The targets agreed may affect the relationship between volume and margins in order to meet the challenges of the market conditions at the time. Within each quarter, monthly meetings review progress to date and allow variations to plans. Less formal communication between the Company and Vodafone takes place on a daily basis.

The Company is remunerated in two ways - an acquisition fee for each subscriber acquired for Vodafone and a monthly fee for managing the customer base. At present, these two fee elements are the major determinants of Mobile Innovations' profitability.

Acquisition Fee: A quarterly marketing meeting between Vodafone and the Company sets the marketing and sales budget. The Company charges customer acquisition costs to Vodafone, plus a fixed fee for each subscriber acquired during the period. The fixed fee is adjustable annually for inflation, with the first adjustment taking place in October 2000.

The ASP Agreement provides the Company with an important safety net through a guaranteed minimum number of new customers per quarter or revenue to an equivalent level. In addition, Vodafone has contracted to exclusively channel a number of its non-electronic direct marketing activities through the Company. However, it is at Vodafone's discretion whether it utilises direct marketing as a route to market and the proportion of its overall marketing budget it elects to channel through the Company. The Directors believe that despite this discretion, Mobile

Innovations is, and will continue to be, one of the most cost-effective marketing channels for Vodafone.

Management Fees: Mobile Innovations has the exclusive right to manage the subscribers acquired by it, both in the past and in the future, in return for a fixed monthly management fee per subscriber. As part of the ASP Agreement negotiations, the fee was benchmarked by Vodafone



against other Vodafone Group companies to ensure that it was cost effective and service standards were agreed to ensure the ongoing quality of customer care. Despite the competitive nature of the fee structure, the Company is able to achieve an attractive margin over its costs, due principally to the efficiency of specialisation.

Centralised call centre-based customer care operations and a sophisticated credit card billing platform contribute to an efficient cost structure that the Directors believe is well below the industry standard. Future volume efficiencies and system enhancements are expected to further reduce management costs per subscriber and increase margins. In this instance, the Agreement incorporates a formula for sharing these benefits between the Company and Vodafone, providing both with an incentive for achieving greater volumes and efficiencies.

Whilst cost management will continue to be important, a significant aspect of the ASP model is the clear relationship between the Company's profitability and subscriber numbers. The Directors believe that continuing cost effective customer management, successful marketing and subscriber growth will generate higher revenue and improved profitability for the Company.

The ASP Agreement provides that the parties may at least six months prior to the expiry of the ASP Agreement enter into bona fide negotiations to extend the term of the ASP Agreement for a further period to be agreed between the parties.

MARKETING

Mobile Innovations targets the high volume, comparatively low spend consumer market using a wide range of direct marketing techniques. Direct marketing is driven by up-to-date knowledge acquired through constant market testing and detailed analysis.

The major elements in new marketing campaigns (such as handset pricing, call plans and free offers) are tested in competing advertisements prior to national "rollout" and creative changes to advertising material are constantly introduced and evaluated. The source of each order is recorded and analysed daily,

successful marketing and subscriber growth will generate higher revenue and improved profitability for the Company

Business Overview (cont)

ensuring that emerging trends are identified and that the results of tests are implemented promptly into mainstream campaigns.

The end result is to ensure that the effectiveness of advertising expenditure is monitored and that new customers are acquired for Vodafone at a low cost. The Directors believe the Company's direct marketing skills in this specialist area are unrivalled in the Australian mobile telecommunications industry.

The Company's direct marketing methodology has been built up through extensively testing alternative channels to market over the past five years and continues to evolve as new initiatives are tested, evaluated and refined. At present the following techniques are used:

Innovations: Mobile Innovations has an agreement with one of its major shareholders, Innovations Holdings Pty Limited ("Innovations"), which gives it access to the Innovations database of in

excess of 1.6 million customers in Australia provides Mobile Innovations with a cost effective method of gaining access to potential new customers. Most Innovations mailings contain a mobile phone offer, either as an insert brochure or a page in the catalogue. In addition, more targeted personalised mailings are regularly sent to selected customer segments.

Printed media: Press features heavily in the marketing mix, with off-the-page colour advertisements placed in Sunday newspaper supplements, TV guides, women's magazines and a wide variety of subscription publications;

Customer offers: The monthly statement mailing and customer newsletters provide further marketing opportunities and regular offers include value added services such as insurance, accessories or, most importantly, the incentive of "Recommend a Friend" programmes;

Direct response TV: A variety of advertising formats and different methods



of high volume order processing have been tested over the past twelve months and expanded national direct response TV is planned for the future;

Affinity marketing: Marketing programmes specially designed for the needs of the customers of selected financial institutions have proved successful and the Directors believe affinity marketing programmes of this nature offer considerable opportunities in the future; and **The Internet:** Despite limited marketing support to date, the Company's Internet site has achieved cost-effective sales. With the infrastructure to support Internet-based sales now in place, a major site upgrade is currently being undertaken and the launch of the new site will be supported by both traditional and web-based advertising. The Company's existing website is located at www.mobileinnovations.com.au.

DIRECT MARKETING EXPERTISE

By drawing on techniques pioneered in the UK and Innovations' experience of local



markets, Mobile Innovations has developed successful marketing strategies for acquiring telecommunications customers at low cost. These include database marketing, "data mining", exposure in print and electronic media, member-get-member

and cross-sell promotions.

Innovations' experience and expertise in direct marketing has been a major factor in Mobile Innovations' success. Along with access to Innovations' extensive database of loyal customers, Mobile Innovations has access to its service and fulfilment expertise.

OPERATIONS

All advertisements and promotions carry the Mobile Innovations' 1-300 number and a unique promotion code. This enables the telesales agent to identify the media in which the advertisement appeared and to identify the specific product and call plan offer. Having identified the offer, the telesales agent outlines its basic elements and explains the terms and conditions, including mandatory credit card billing.

When the customer has decided to proceed with the purchase, billing, delivery and credit card details are entered into the sales order processing system, along with details of the product and call plan purchased. Once the customer's details have been verified, a package including a handset, battery, instruction manual, contract terms and SIM (subscriber identity module) card is dispatched by courier. As sales levels are normally predictable, the Company is able to operate a just-in-time stock policy, typically carrying less than two weeks stock of handsets.

The handset is dispatched with a SIM card which contains the customer's connection and service details, connected but barred from making calls. Having read and agreed the enclosed terms and conditions, the customer calls the Company to activate the service.

Business Overview (cont)

This second contact allows the Company to confirm all previously supplied details and to sell additional products and services, such as insurance and accessories. It is also an opportunity to offer a range of different call plans and value-added network services. Additionally, it gives the customer a chance to ask any questions he or she may have on either the operation of the handset or use of the Vodafone network.

It is envisaged that in the future this call would provide the opportunity to offer a broader range of telecommunications services to the customer.

SUBSCRIBER MANAGEMENT

On completion of the sale, Mobile Innovations takes responsibility under the ASP Agreement for the billing, servicing and management of the customer.

The Company's credit card-based billing system has enabled it to bill and manage customers on a cost-effective basis. The bad debt level, normally a major cost to both carriers and service providers, experienced by Mobile Innovations is historically less than 1% of revenue billed on behalf of Vodafone.

In addition to the billing and credit control function, Mobile Innovations handles customer care issues, such as network coverage, call plan queries, hardware issues, changes to service levels and international roaming requests.

A dedicated department responsible for customers whose contracts have reached the end of their fixed period and those seeking to upgrade or modernise their handsets operates with the objective of reducing churn. The customer care and billing software currently used exclusively by Mobile Innovations has been developed in-house in conjunction with external software developers. Its considerable flexibility enables it to be used for other products and services.

Board of Directors



WILLIAM JEPHCOTT

WILLIAM JEPHCOTT

Chairman, aged 49

Appointed Chairman of Mobile Innovations in 1999, Mr Jephcott has over 17 years experience in corporate advice and investment banking specialising in mergers and acquisitions, corporate and project finance and general financial advice. He is currently a Senior Adviser with Merrill Lynch International (Australia) Limited. Prior to joining Merrill Lynch he was a principal of Centaurus Corporate Finance Pty Limited, one of Australia's leading corporate advisory firms. Mr Jephcott worked for 13 years in the building products and resource industries before his investment banking career. He is a director of Parbury Limited and ROC Oil Company Limited.



NIGEL BRAMWELL

NIGEL BRAMWELL

Managing Director, aged 42

Has been the managing Director since 1994. Nigel brings valuable industry and management experience, with in excess of 17 years experience in the telecommunications industry. Having founded and run a number of successful Service Providers in the UK, Nigel co-founded Cellphones Direct in the UK in 1992. Cellphones Direct was one of the first companies to sell mobile phones using direct marketing techniques, through partnership arrangements with companies such as American Express and by extensive off-the-page advertising. It was this company's trading methods which formed the basis of Mobile Innovations operations in Australia.



CHRIS SHAW

CHRIS SHAW

Non-executive Director, aged 50

Mr Shaw was appointed a Director in 1994. He is currently an Executive Director of Innovations Holdings Pty. Ltd., publisher of Australia's widest circulating direct marketing catalogue. Mr Shaw co-founded Innovations in 1985 and is responsible for the group's operations in Australia and New Zealand; including strategic acquisitions and the launch of a number of new business ventures including HomeCare Direct Shopping (agent distribution of kitchen and housewares), 50% owned EziBuy (specialist ladies apparel) and 50% owned Mobile Innovations. Qualified as a Chartered Accountant, Mr Shaw formerly held positions in financial consulting and direct marketing.

Corporate Governance

THE BOARD

The Board of Mobile Innovations is responsible for the leadership and direction of the Company, including strategy, financial budgets and business goals. The Board monitors the Company's progress towards achieving these goals by means of management reports presented at monthly meetings, or as required in the case of special investigations.

The Board currently comprises three Directors:

| | |
|----------------|------------------------|
| Will Jephcott | Non-executive Chairman |
| Chris Shaw | Non-executive Director |
| Nigel Bramwell | Managing Director |

The experience and qualifications of each Director are set out on pages 12 and 13, together with the details of meetings and attendances on page 17.

At the time of listing, Bob Mansfield was also a non-executive Director of the Company. On accepting the role as Chairman elect of Telstra, Bob Mansfield resigned as a Director of Mobile Innovations.

The Board is seeking one or two additional Directors to replace Bob Mansfield and add to the experience already represented on the Board.

The three executive Directors meet regularly with the senior executives to review operating results and forecasts and approve strategic initiatives and major expenditures. Particular emphasis is placed on the need for compliance with legislation in areas such as Trade Practices and the Corporations Law.

COMMITTEES OF THE BOARD

The Board has formed three Committees: Audit, Compensation and Nomination. The

Managing Director sits only on the Nomination Committee as a full member but attends the meetings of the other Committees by invitation.

The Audit Committee monitors business and financial risks and ensures the integrity of the Company's financial statements by meeting with accounting staff and the external auditor. It is also responsible for monitoring the Company's compliance with legislative requirements.

The Compensation Committee has not met since the float of the company but will be responsible for reviewing the compensation of the Managing Director and senior executives to ensure that they are rewarded in accordance with market rates. In due course, this Committee will also make recommendations to shareholders regarding non executive Directors fees.

The Nomination Committee is responsible for the nomination of additional Directors and is currently seeking a replacement for Mr Bob Mansfield. It is intended that this Committee will meet as required.

NON EXECUTIVE DIRECTOR REMUNERATION

The total maximum remuneration of Directors has been approved by shareholders at \$250,000 per annum. Remuneration of the Chairman is currently \$50,000 per annum and for non-executive Directors \$30,000 per annum each. The approved limit provides adequate flexibility for the appointment of additional Directors.

SHAREHOLDINGS

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

The company has adopted a sharetrading policy which allows Directors and

nominated senior staff to trade in the Company's securities only with the approval of the Board and the Managing Director in the case of senior staff, and generally only in the six week period following the release of the Company's half yearly and yearly results to the Australian Stock Exchange and the Annual General Meeting.

INDEPENDENT ADVICE

Directors have the right to seek independent advice, in relation to their rights and duties, at the Company's expense. Prior approval of the Chairman is required.

CONTINUOUS DISCLOSURE

The Board is committed to ensuring that price sensitive information is released to Australian Stock Exchange in accordance with continuous disclosure requirements.

ACCC UNDERTAKING

Mobile Innovations entered into an ACCC undertaking on 18 June 1998. The undertaking requires Mobile Innovations to:

- undertake pre-launch market testing all new mobile phone promotional material;
- educate telephone marketing staff;
- hold seminars for telemarketing staff;
- engage a consultant to audit telephone marketing staff and promotional material; and
- commission an independent audit of its compliance program annually.

Mobile Innovations has complied with the undertakings given to the ACCC.

RISK MANAGEMENT

The board is responsible for the company's system of internal controls. The board constantly monitors the operational and

financial aspects of the company's activities and, through the audit committee, the board considers the recommendations and advice of external and internal auditors and other external advisers on the operational and financial risks that face the company.

The board ensures that recommendations made by the external and internal auditors and other external advisers are investigated and, 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 addition, the board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties, the employment and training of suitably qualified and experienced personnel, and, in conjunction with the recommendations of the audit committee, the scope and work program of internal auditors.

CODE OF CONDUCT

As part of the board's commitment to the highest standard of conduct, the company adopts a code of conduct to guide executives, management and employees in carrying out their duties and responsibilities. The code of conduct covers such matter as:

- responsibilities to shareholders;
- compliance with laws and regulations;
- relations with customers and suppliers;
- ethical responsibilities;
- employment practices; and
- responsibilities to the environment and the community.

Directors' Report

The directors of Mobile Innovations Limited submit herewith the financial report for the financial year ended 30 June 1999. In order to comply with the provisions of the Corporations Law, the directors report as follows:

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

of revenue has been from fees for the acquisition and maintenance of customers on a cost plus basis on behalf of Vodafone in the capacity of an Agent Service Provider.

REVIEW OF OPERATIONS

As noted above, the company now operates as an Agent Service Provider for Vodafone. A profit before tax of \$19,332,803 (\$12,372,994 after tax) was realised from

| Name | Particulars |
|------------------|--|
| William Jephcott | Chairman, aged 49, senior adviser and company director, appointed 15 April 1999. |
| Nigel Bramwell | Managing Director, aged 42, Managing Director since 1994. |
| Chris Shaw | Non-executive Director, aged 50, chartered accountant, Director since 1994 and Executive Director of Innovations Holdings Pty Limited. |
| Robert Mansfield | Non-executive Director, aged 48, senior adviser to the Australian Prime Minister and company director. Appointed 15 April 1999 and resigned on 31 August 1999. |
| Peter Watts | Resigned 15 April 1999. |
| Gary Hellyer | Resigned 15 April 1999. |

PRINCIPAL ACTIVITIES

The company's principal activities up to 2 October 1998 were as a service provider in the telecommunications industry and consisted of the purchase and sale of mobile phones, accessories and airtime. The company earned revenues on a margin basis as a reseller of mobile phones, accessories, and access and airtime on the Vodafone mobile phone network.

On 2 October 1998 the company sold the contractual rights to its mobile phone customer subscriber base to Vodafone Network Pty Limited ("Vodafone"). From 2 October 1998, the company's main source

of revenue has been from fees for the sale of the contractual rights of the mobile phone subscriber base to Vodafone on 2 October 1998.

As a result of the Agent Service Provider Agreement, the company now earns revenues from the acquisition of new subscribers to the Vodafone network and receives management fees for maintaining active subscribers. This new agreement has contributed significantly to the reported results from a loss of \$165,427 for the twelve months to 30 June 1998 under the previous arrangements to an operating profit before tax and abnormal items of \$4,028,000 for the financial year ended 30 June 1999.

CHANGE IN STATE OF AFFAIRS

On 23 April 1999, Mobile Innovations Pty Limited converted to a public company and changed its name to Mobile Innovations Limited. The company's shares commenced trading on Australian Stock Exchange on 25 June 1999.

During the financial year there was no other significant change in the state of affairs of the company other than that referred to in the financial statements or notes thereto.

SUBSEQUENT EVENTS

On 6 September 1999, the Company announced plans to expand operations in to New Zealand. Subject to a three month trial period, the Company intends to enter into a long term agreement with Vodafone New Zealand covering the acquisition and management of subscribers.

On 9 September 1999, the Company has acquired the long distance subscriber base of G3 Communications for \$600,000. The Company will gain between 5,500 and 6,000 subscribers from the purchase and has recently finalised a long distance resale agreement with Cable & Wireless Optus.

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

FUTURE DEVELOPMENTS

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

DIVIDENDS

In respect of the financial year ended 30 June 1999, a fully franked dividend (at a corporate tax rate of 36%) of \$7 million was declared to the holders of fully paid ordinary shares on 20 June 1999. This dividend was paid on 1 July 1999.

YEAR 2000

The Company's computer systems have been broken down into separate business risk categories, being:

1. Fatal
2. Critical
3. Manageable
4. Marginal

Mobile Innovations billing system has been confirmed Y2K compliant and associated

hardware will be replaced or upgraded during the relocation to new premises in

October 1999. It is anticipated that all other systems identified as Fatal or Critical will be replaced or upgraded by 31 October 1999. Systems identified as Manageable or

Marginal will be continually monitored for their impact and a decision to retire, replace or upgrade will be made by 31 October 1999.

The Company plans to relocate its premises in October 1999. Due to this move a new

Directors' Report (cont)

PABX and network infrastructure has been acquired which meets Y2K compliance. In relation to the Company's order entry system, testing has been completed on a "patch" which has been applied. The patch effectively catches dates as they are entered and translates to a Y2K format.

Mobile Innovations do not foresee any further material expense in relation to the Y2K issue. The majority of work will involve internal testing.

It is difficult to differentiate between claims of conformity with Y2K and the ability of third parties to demonstrate it. Contingency plans have been identified to avoid business interruptions within our call centre and billing services caused by 3rd party suppliers failing to meet their obligations.

SHARE OPTIONS

Share Options Granted to Directors and Executives

Share Options Granted to Directors and Executives

During the financial year an aggregate of 4,500,000 share options were granted to the following directors and executives of

the company under the terms of the Executive Option Plan:

In accordance with the provisions of the Executive and Employee Share Option Plan, as at the date of this report, executives and employees are entitled to purchase an aggregate of 6,430,000 ordinary shares of the Company at an issue price of \$1.00 per ordinary share in each period of one month from the dates upon which the Company lodges its half yearly report and preliminary final report with Australian Stock Exchange within the period which commences on the date which is:

- for 50% (at the Directors' discretion, 100% for holders of 50,000 or fewer options) of the options, 12 months;
- for the remaining options, 24 months, after the Company's listing on Australian Stock Exchange. These options expire on the earlier of:
 - five years from the date of issue;
 - the date which the optionholder ceases to be an employee of the Company or any of its subsidiaries other than as a result of the death of the optionholder.

| Directors and Executives | Number of Options Granted | Issuing Entity | Number of Ordinary Shares Under Option |
|----------------------------|---------------------------|--------------------|--|
| W Jephcott | 1,500,000 | Mobile Innovations | 1,500,000 |
| R Mansfield ⁽¹⁾ | 1,500,000 | Mobile Innovations | 1,500,000 |
| R Richards ⁽²⁾ | 500,000 | Mobile Innovations | 500,000 |
| L Jones ⁽²⁾ | 500,000 | Mobile Innovations | 500,000 |
| R Stonell ⁽²⁾ | 500,000 | Mobile Innovations | 500,000 |

(1) Upon his resignation from the Board on 31 August 1999, Mr Mansfield's allocation of options automatically lapsed under the terms of the Executive Option Plan. The Board has exercised its discretion under the terms of the Plan to allow Mr Mansfield to retain 350,000 options in recognition of his contribution to the Company.

(2) Options granted comprised 300,000 options under the Executive and Employee Share Option Plan and 200,000 options under the Key Executive Share Option Plan.

In accordance with the provisions of the Key Executive Share Option Plan, as at the date of this report, key executives are entitled to purchase an aggregate of 900,000 ordinary shares of the Company at an issue price of \$0.01 per ordinary share in the period of one month from the Company's listing on Australian Stock Exchange and in each period of one month from the dates upon which the Company lodges its half year report and preliminary final report with Australian Stock Exchange, up to the earlier of:

- five years from the date of issue;
- the date which the option holder ceases to be an employee of the Company or any of its subsidiaries other than as a result of the death of the option holder.

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 other body corporate or registered scheme.

During the financial year, no options were exercised in accordance with the provisions of the Executive and Employee Share Option Plan and the Key Executive Share Option Plan.

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, Mr Ralph Stonell, 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 Law. 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 financial year, indemnified or agreed to indemnify an auditor of the Company against a liability incurred.

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, five Board meetings were held.

DIRECTORS' AND EXECUTIVES' REMUNERATION

Remuneration packages are reviewed with due regard to performance and other relevant factors.

| Directors | Board of Directors Held | Board of Directors Attended |
|-------------|-------------------------|-----------------------------|
| W Jephcott | 4 | 4 |
| N Bramwell | 5 | 5 |
| C Shaw | 5 | 5 |
| R Mansfield | 4 | 4 |
| P Watts | 2 | – |
| G Hellyer | 2 | – |

DIRECTORS' SHAREHOLDINGS

| Directors | Fully Paid Ordinary Shares | | |
|-------------|----------------------------|---------------------------|--------------------------|
| | Direct Holding | Indirect Holding | Executive Share Options |
| W Jephcott | – | 50,000 | 1,500,000 |
| N Bramwell | – | 38,850,050 ⁽¹⁾ | – |
| C Shaw | – | 38,850,050 ⁽²⁾ | – |
| R Mansfield | 50,000 | – | 1,500,000 ⁽³⁾ |

(1) Interests associated with Mr Bramwell have a non-controlling interest in Haley BV which holds the shares in the Company.

(2) Mr Shaw holds an approximate 48% interest in Innovations Holdings Pty Limited which holds the shares in the Company.

(3) Reduced to 350,000 on 31 August 1999 as disclosed previously.

Directors' Report (cont)

Remuneration packages contain the following key elements:

- a) Salary/fees;
- b) Benefits - including the provision of motor vehicle, superannuation and health benefits; and
- c) Incentive schemes - including performance related bonuses and share options under the executive and employee share option plan as disclosed in note 18 to the financial statements. The value of the share options granted cannot be reliably measured on the basis that their values are conditional on future events. As such, the share options granted have been excluded from directors' and executives' remuneration in the following table.

The following table discloses the remuneration of the directors of the Company and the highest remunerated executives of the Company (including executive directors).

ROUNDING OFF OF AMOUNTS

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' report and the financial report have been rounded off to the nearest thousand dollars.

Signed in accordance with a resolution of the Directors, pursuant to section 298(2) of the Corporations Law.

On behalf of the Directors

W Jephcott
Chairman

N W H Bramwell
Managing Director

Sydney, 28th September 1999

| Name | Office | Salary/ Fees | Benefits | Total |
|------------------------|------------------------|-----------------|----------|---------|
| W Jephcott | Non-executive Director | 16,666 | – | 16,666 |
| N Bramwell | Executive Director | 307,900 | – | 307,900 |
| C Shaw ⁽¹⁾ | Non-executive Director | – | – | – |
| R Mansfield | Non-executive Director | 10,000 | – | 10,000 |
| P Watts ⁽¹⁾ | Non-executive Director | – | – | – |
| G Hellyer | Non-executive Director | 126,000 | – | 126,000 |
| R Richards | Executive | 100,010 | 49,942 | 149,952 |
| L Jones | Executive | 106,216 | 21,042 | 127,258 |
| R Stonell | Executive | 91,651 | 24,109 | 115,760 |
| C Statham | Executive | 83,579 | 27,303 | 110,882 |

(1) Refer note 22 of the financial statements for details of related party transactions.