

Financial Statements

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Profit and Loss Statement

for the financial year ended 30 June 1999

	Note	1999 \$000	1998 \$000
Sales revenue	2	41,239	31,851
Operating profit/(loss) before abnormal items	2	4,028	(165)
Abnormal items before income tax	3	19,333	–
Operating profit/(loss) before tax		23,361	(165)
Income tax expense attributable to operating profit	4	5,297	–
OPERATING PROFIT/(LOSS) AFTER INCOME TAX EXPENSE		18,064	(165)
Accumulated losses at the beginning of the financial year		(8,761)	(8,596)
TOTAL AVAILABLE FOR APPROPRIATION		9,303	(8,761)
Dividends provided for	25	7,000	–
RETAINED PROFITS/(ACCUMULATED LOSSES) AT THE END OF THE FINANCIAL YEAR		2,303	(8,761)
Earnings per share			
Basic (cents per share)	27	16.40	–
Basic (cents per share) excluding abnormals	27	5.17	–

The above profit and loss statement should be read in conjunction with the accompanying notes.

Balance Sheet

as at 30 June 1999

	Note	1999 \$000	1998 \$000
CURRENT ASSETS			
Cash		13,164	620
Receivables	5	4,684	14,203
Inventories	6	675	560
Other	7	264	218
TOTAL CURRENT ASSETS		18,787	15,601
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,768	1,800
TOTAL NON-CURRENT ASSETS		1,768	1,800
TOTAL ASSETS		20,555	17,401
CURRENT LIABILITIES			
Accounts payable	9	5,706	8,902
Borrowings	10	–	17,063
Provisions	11	12,253	82
TOTAL CURRENT LIABILITIES		17,959	26,047
NON-CURRENT LIABILITIES			
Provisions	12	193	15
TOTAL NON-CURRENT LIABILITIES		193	15
TOTAL LIABILITIES		18,152	26,062
NET ASSETS/(DEFICIENCY)		2,403	(8,661)
EQUITY/(DEFICIENCY)			
Issued capital	13	100	100
Retained profits/(accumulated losses)		2,303	(8,761)
TOTAL EQUITY/(DEFICIENCY)		2,403	(8,661)

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the financial year ended 30 June 1999

	Note	1999 \$000	1998 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		51,069	37,301
Payments to suppliers and employees		(41,813)	(40,744)
Interest received		304	19
Interest paid		(314)	(638)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	14(b)	9,246	(4,062)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments		383	–
Proceeds from the sale of fixed assets		113	21
Proceeds from the sale of the contractual rights to the subscriber base		20,269	–
Payments for costs incurred on sale of subscriber base		(936)	–
Payment for property, plant and equipment		(702)	(1,120)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		19,127	(1,099)
Loans to Director-related entities		(5,944)	–
Repayment of loans to Director-related entities		5,944	–
Proceeds from borrowings		1,234	5,816
Repayment of borrowings		(17,063)	–
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES		(15,829)	5,816
NET INCREASE IN CASH HELD		12,544	655
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		620	(35)
CASH AT THE END OF THE FINANCIAL YEAR	14(a)	13,164	620

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

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 1999

1. SUMMARY OF ACCOUNTING POLICIES

Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Law, applicable Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and other events is reported.

In addition to the accounting policies prescribed by applicable Accounting Standards and Urgent Issues Group Consensus Views, the following significant accounting policies have been adopted in the preparation and presentation of the general purpose financial report:

(a) Income Tax

Tax effect accounting principles have been adopted whereby the income tax expense or benefit has been calculated on pre-tax accounting profits or losses after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

(b) Depreciation

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life.

Leasehold improvements are amortised over the period of the lease or estimated useful life, whichever is shorter, using the straight line method. The following estimated useful lives are used in the calculation of depreciation:

- Furniture, fixtures and equipment 3-8 years

(c) Inventories

All inventories are stated at the lower of cost and realisable value. Costs are assigned to inventory on hand on a weighted average cost basis.

(d) Leased Assets

Operating lease payments are charged as an expense in the period in which they are incurred.

Notes to and forming part of the Financial Statements (continued)

for the financial year ended 30 June 1999

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(e) Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service 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 and other employee entitlements expected to be settled within 12 months are measured at their nominal values.

Provisions made in respect of other employee entitlements 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 Company in respect of services provided by employees up to the reporting date.

(f) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

(g) Receivables

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

(h) Recoverable Amount of Non-current Assets

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

(i) Accounts Payable

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

(j) Borrowings

Bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

(k) Comparative Figures

Comparative figures are, where appropriate, reclassified so as to be comparable with the figures presented for the current financial year.

(l) 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 has passed control of the goods or other assets to the buyer.

Rendering of Services – Agent Service Provider Agreement

Revenue from a contract to provide services for Vodafone Network Pty Ltd is recognised by reference to the number of subscribers connected to the Vodafone mobile phone network in each month.

	1999 \$000	1998 \$000
2. OPERATING PROFIT/(LOSS)		
Operating profit/(loss) before income tax includes the following items of revenue and expense:		
Operating Revenue		
Sales revenue:		
Rendering of services	40,996	30,337
Sale of goods	243	1,514
Rent	36	15
Interest:		
Directors and director-related entities	124	–
Other entities	180	14
	41,579	31,880
Non-operating Revenue		
Proceeds from the sale of non-current assets:		
Investments	383	–
Property, plant and equipment	113	21
Subscriber base	20,269	–
	20,765	21
Total revenue	62,344	31,901
Profit on sale of non-current assets:		
Investments	383	–
Expenses		
Interest:		
Related bodies corporate	–	4
Other entities	314	633
Depreciation of property, plant and equipment	469	308
Amortisation of non-current assets:		
Leased assets	140	9
Bad debts written off in respect of amounts receivable from:		
Other entities	258	95
Provision for doubtful debts in respect of amounts receivable from:		
Other entities	213	20
Transfers to provisions:		
Employee entitlements	168	151
Inventory obsolescence	25	40
Operating lease rental expense	188	145
Loss on sale of property, plant and equipment	12	–

Notes to and forming part of the Financial Statements (continued)

for the financial year ended 30 June 1999

	1999 \$000	1998 \$000
3. ABNORMAL ITEMS		
Abnormal Revenues		
Profit from sale of contractual rights to the subscriber base	19,333	–
Applicable income tax	(6,960)	–
	12,373	–
4. INCOME TAX		
(a) The prima facie income tax expense/(benefit) on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Operating Profit/(Loss)	23,361	(165)
Income tax expense/(benefit) calculated at 36% of operating profit/(loss)	8,410	(60)
Permanent Differences:		
Non-deductible expenditure	14	33
Provision for deferred income tax not previously recognised now brought to account	4,192	–
Timing differences and tax losses not brought to account as future income tax benefits	–	27
Utilisation of carry forward tax losses not previously recognised	(7,319)	–
Income tax expense attributable to operating profit	5,297	–
(b) Income tax expense comprises:		
Current income tax payable	5,139	–
Provision for deferred income tax	158	–
	5,297	–
5. CURRENT RECEIVABLES		
Trade debtors	4,725	1,689
Less: Provision for doubtful debts	176	122
	4,549	1,567
Accrued income	135	12,547
Other debtors	–	89
	4,684	14,203

	1999 \$000	1998 \$000
6. CURRENT INVENTORIES		
Finished goods – at cost	750	610
Less: Provision for obsolescence	75	50
	675	560
7. OTHER CURRENT ASSETS		
Prepayments	264	218
8. PROPERTY, PLANT AND EQUIPMENT		
Leasehold improvements – at cost	149	149
Less: Accumulated depreciation	149	8
	–	141
Furniture, fixtures and equipment – at cost	2,935	2,250
Less: Accumulated depreciation	1,167	591
	1,768	1,659
Total property, plant and equipment	1,768	1,800
9. CURRENT ACCOUNTS PAYABLE		
Trade creditors	3,895	7,089
Other creditors and accruals	1,811	1,813
	5,706	8,902
10. CURRENT BORROWINGS		
Loan – Vodafone Pty Ltd	–	7,063
Bank Loan – secured (i)	–	10,000
	–	17,063
(i) Bank loan secured by third party guarantee and indemnity.		
11. CURRENT PROVISIONS		
Dividends (refer note 25)	7,000	–
Employee entitlements	114	82
Taxation	5,139	–
	12,253	82

Notes to and forming part of the Financial Statements (continued)

for the financial year ended 30 June 1999

	1999 \$000	1998 \$000
12. NON-CURRENT PROVISIONS		
Employee entitlements	35	15
Deferred income tax liability	158	–
	193	15

13. SHARE CAPITAL

Issued share capital

110,000,100 ordinary shares fully paid
(1998: 100,000)

100	100
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During the year a capital reconstruction occurred increasing the issued capital from 100,000 ordinary shares to 110,000,100.

Details of options issued under the Executive and Employee Share Option Plan and the Key Executive Share Option Plan are disclosed in note 18.

14. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

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 balance sheet as follows:

Cash	13,164	620
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(b) Reconciliation of operating profit after income tax to net cash flows from operating activities

Operating profit/(loss) after income tax	18,064	(165)
Loss/(Profit) on sale of non-current assets	12	(1)
Profit on sale of shares	(383)	–
Profit on sale of subscriber base	(19,333)	–
Depreciation and amortisation of non-current assets	609	317
Increase/(Decrease) in income tax payable	5,139	–
Increase/(Decrease) in other tax balances	158	–

	1999 \$000	1998 \$000
Change in net assets and liabilities:		
(Increase)/Decrease in assets:		
Current receivables	9,497	(6,587)
Current inventories	(114)	99
Other current assets	(25)	144
Increase/(Decrease) in liabilities:		
Current payables	(3,171)	1,516
Other current liabilities	(1,227)	600
Other non-current liabilities	20	15
Net cash provided by/(used in) operating activities	9,246	(4,062)

15. COMMITMENTS FOR EXPENDITURE

Commitments under non-cancellable operating leases contracted for:

Not later than one year	266	240
Later than one year but not later than two years	302	266
Later than two years but not later than five years	389	691
	<u>957</u>	<u>1,197</u>

16. DIRECTORS' REMUNERATION

The Directors of Mobile Innovations Limited during the year were:

- W Jephcott (appointed 15 April 1999)
- N Bramwell
- C Shaw
- R Mansfield (appointed 15 April 1999, resigned 31 August 1999)
- P Watts (resigned 15 April 1999)
- G Hellyer (resigned 15 April 1999).

The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all Directors of the Company, directly or indirectly, by the Company or by any related party

461	<u>367</u>
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Notes to and forming part of the Financial Statements (continued)

for the financial year ended 30 June 1999

	No.	No.
16. DIRECTORS' REMUNERATION (continued)		
The number of Directors of the Company whose income from the Company or related parties was within the specified bands are as follows:		
\$ 0 – \$ 9,999	2*	2*
\$ 10,000 – \$ 19,666	2	–
\$ 120,000 – \$ 129,999	1	1
\$ 220,000 – \$ 229,999	–	1
\$ 300,000 – \$ 309,999	1	–

* C Shaw and P Watts receive fees through Director-related entities. Refer note 22 for further details.

	1999 \$000
17. EXECUTIVES' REMUNERATION	
Aggregate remuneration of executive officers of the Company working mainly in Australia and receiving \$100,000 or more from the Company or from any related party	937
The number of executive officers whose remuneration falls within each successive \$10,000 band of income (commencing at \$110,000):	
	No.
\$ 110,000 – \$ 119,000	2
\$ 120,000 – \$ 129,999	2
\$ 140,000 – \$ 149,999	1
\$ 300,000 – \$ 309,999	1

18. EXECUTIVE AND EMPLOYEE SHARE OPTION PLAN

The Company has an ownership-based remuneration scheme for executives and employees.

In accordance with the provisions of the Executive and Employee Share Option Plan, as at 30 June 1999, executives and employees are entitled to purchase an aggregate of 6,430,000 ordinary shares of Mobile Innovations Limited 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 fewer than 50,000 options) of the options, 12 months;
- for the remaining options, 24 months,

after the Company's listing on Australian Stock Exchange.

In accordance with the provisions of the Key Executive Share Option Plan, as at 30 June 1999, key executives are entitled to purchase an aggregate of 900,000 ordinary shares of Mobile Innovations Limited at an issue price of \$0.01 per ordinary share in the period of one month from the Company's listing on the Australian Stock Exchange and 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.

The options under the Executive and Employee Share Option Plan and the Key Executive Share Option Plan expire on the earlier of five years from the date of issue or 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.

All the above options were issued during the financial year.

As at 30 June 1999, 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 notes 16 and 17.

	1999 \$000	1998 \$000
19. AUDITOR'S REMUNERATION		
Amounts received, or due and receivable by the auditor of the Company for:		
Audit of the company's financial statements	43	26
Other services	120	8
	163	34

Notes to and forming part of the Financial Statements (continued)

for the financial year ended 30 June 1999

20. FINANCIAL INSTRUMENTS

The following table details the Company's exposure to interest rate risk at the reporting date.

	Average Interest Rate %	Variable Interest Rate \$000	Fixed Interest Rate Less Than 1 Year	Maturity 1 to 5 Years	More Than 5 Years	Non-interest Bearing \$000	Total \$000
30 JUNE 1999							
Financial Assets							
Cash	3.79	3,124	–	–	–	–	3,124
Trade receivables	–	–	–	–	–	4,684	4,684
Bills of exchange	4.40	10,040	–	–	–	–	10,040
		13,164	–	–	–	4,684	17,848
Financial Liabilities							
Trade payables	–	–	–	–	–	5,706	5,706
Dividend payable	–	–	–	–	–	7,000	7,000
Employee entitlements	–	–	–	–	–	149	149
Income tax payable	–	–	–	–	–	5,139	5,139
		–	–	–	–	17,994	17,994
30 JUNE 1998							
Financial assets	0.04	125	–	–	–	14,698	14,823
Financial liabilities	2.03	10,000	–	–	–	16,047	26,047

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

	1999 \$000	1998 \$000
21. EMPLOYEE ENTITLEMENTS		
The aggregate employee entitlement liability recognised and included in the financial statements is as follows:		
Provision for employee entitlements:		
Current (note 11)	114	82
Non-current (note 12)	35	15
	149	97

	1999 \$000	1998 \$000
22. RELATED PARTY DISCLOSURES		
(a) Directors' remuneration		
Details of directors' remuneration are disclosed in note 16 to the financial statements.		
(b) Directors' loans		
Directors' loans in existence as at the reporting date:		
Current	-	-
Interest revenue in respect of Directors' loans is disclosed in note 2 to the financial statements.		
Directors' loans made during the financial year:		
Nature of Terms and Conditions	Director	
Normal commercial terms and conditions	N Bramwell ⁽ⁱ⁾	
	G Hellyer ⁽ⁱ⁾	
	C Shaw ⁽ⁱⁱ⁾	
	P Watts ⁽ⁱⁱ⁾	
	5,944	-
(i) Loans were made to a Director-related entity of Mr N Bramwell and Mr G Hellyer.		
(ii) Loans were made to a Director-related entity of Mr C Shaw and Mr P Watts.		
Repayments received during the financial year in respect of Directors' loans:		
Nature of Terms and Conditions	Director	
Normal commercial terms and conditions	N Bramwell	
	G Hellyer	
	C Shaw	
	P Watts	
	5,944	-

Notes to and forming part of the Financial Statements (continued)

for the financial year ended 30 June 1999

	1999 \$000	1998 \$000
22. RELATED PARTY DISCLOSURES (continued)		
(c) Directors' equity holdings		
Issued during the financial year to Directors and their Director-related entities by:		
Mobile Innovations Limited	–	3,000,000
Held as at the reporting date by Directors and their Director-related entities in:		
Mobile Innovations Limited	77,800,100	3,000,000

All executive share options issued to the Directors during the financial year were made in accordance with the provisions of the Executive Share Option Plan. Further details of the Executive Share Option Plan are contained in the Directors' report and note 18 to the financial statements.

(d) Other transactions with Directors

Details of interest and revenue derived from Directors and their Director-related entities are disclosed in note 2 to the financial statements.

Two of the Directors, Mr C R Shaw and Mr P Watts, own a beneficial interest in Innovations Holdings Pty Limited which, in turn, has a beneficial interest in Innovations Direct Pty Limited and Peter Watts Designs Limited (part of the Innovations Group). Innovations Holdings Pty Limited owns 35.3% of the Company.

The Company has formal and informal agreements with companies within the Innovations Group to share services, infrastructure and other overhead costs with the objective of minimising those costs by avoiding duplication. The transactions with the related parties are at or below arms' length cost and are based on normal commercial terms and conditions. These details are as follows:

	1999 \$000	1998 \$000
Innovations Holdings Pty Limited received from the Company for:		
Management, marketing and computing services (including the provision of Chris Shaw's services)	262	–
Innovations Direct Pty Limited received from the Company for:		
Customer introduction services	183	426
Inventory purchases	92	71
Customer, computing, desktop publishing and other management services (including the provision of Chris Shaw's services)	39	210

	1999 \$000	1998 \$000
Peter Watts Designs Limited received from the Company for:		
Management and marketing services (ceased in April 1999)	167	98
Innovations Direct Pty Limited paid to the Company for:		
Rental of warehouse space	36	15
<p>During the financial year, the Company paid fees to Appleson Pty Limited, a Director-related entity of Chris Shaw, for the provision of temporary staff and recruitment services on normal commercial terms and conditions. Details are as follows:</p>		
Appleson Pty Limited received from the Company for:		
Temporary staff and recruitment services	355	380

Unless stated above it is expected that these services will continue to be used as and when required by the Company.

23. SEGMENT INFORMATION

The Company operates in Australia predominantly in the telecommunications industry, deriving revenue from the acquisition and management of mobile phone subscribers and the sale of mobile phone-related accessories.

24. ECONOMIC DEPENDENCY

A significant volume of the Company's revenue is derived under the Agent Service Provider Agreement that exists between the Company and Vodafone Network Pty Limited ("Vodafone").

The Agent Service Provider Agreement dated 2 October 1998 sets out the terms on which Vodafone has appointed the Company as a non-exclusive Agent Service Provider of Vodafone Billing Services Pty Limited (Vodafone Billing Services) to provide services in relation to:

1. the acquisition and connection of new subscribers to Vodafone's mobile telecommunications services on a post-paid basis; and
2. the management of new and existing subscribers including the billing of subscribers for mobile telecommunications services.

The Agreement provides that the Company must devote its entire mobile direct marketing operation exclusively to Vodafone and Vodafone Billing Services, which operation involves the acquisition of subscribers to mobile telecommunications services solely by means of remote selling specifically where advertisements are placed in press, magazines and catalogues or direct mail and customer orders are received centrally by telephone, fax, email or the Internet.

The Company is entitled to sell products and services ancillary to mobile telecommunications services to Vodafone subscribers and other goods and services which may be charged on subscribers' monthly bills.

Notes to and forming part of the Financial Statements (continued)

for the financial year ended 30 June 1999

24. ECONOMIC DEPENDENCY (continued)

Vodafone may commence selling or supplying a product or service ancillary to its mobile telecommunications services, in which case it must offer to appoint the Company as its non-exclusive agent to promote and distribute that product or service on reasonable terms if the Company is not at the time itself selling or supplying that product or service. If the Company is selling or supplying that product or service, then Vodafone's offer to appoint the Company as its agent must include retail terms, conditions and margins comparable to those applicable to the product or service then sold or supplied by the Company. Once Vodafone makes an offer to appoint the Company as its agent for the product or service, which is ancillary to its mobile telecommunications services, the Company must cease entering into any contracts to supply that product or service.

This does not prevent the Company continuing any sale or supply of other goods and services to Vodafone subscribers which are charged on the subscribers' monthly bill during the term of the Agreement and for up to six months after termination of the Agreement (with Vodafone continuing the billing process in this six-month period).

The Agreement imposes an obligation on the Company not to deal with any other mobile network carrier or operator in respect of analogue or digital mobile phone services. The Agreement prohibits Vodafone (including the Vodafone Group) from dealing with a new service provider (being one that acquires, manages and supports principally post-paid mobile phone service subscribers for certain periods) or an existing service provider who is a member of the Vodafone Group, which service provider conducts a mobile direct marketing operation in competition with the Company.

The Company is required to use its best endeavours to promote Vodafone's mobile telecommunications services throughout Australia and to maintain and enhance the reputation and prestige of the Vodafone Group.

The Agreement operates for a period of 10 years from 2 October 1998 unless terminated sooner in accordance with its provisions. The parties may enter into bona fide negotiations to extend the term of the Agreement for a further period to be agreed at least six months prior to the expiry of the Agreement.

In acquiring new subscribers to Vodafone's mobile telecommunications services, the Company is solely responsible for the acquisition and sale of handsets and accessories; however, subscriber identity modules (enabling subscribers to use the mobile telecommunications services) are provided by Vodafone.

Minimum performance standards (benchmarks) must be met by the Company. If the Company fails to meet any of those performance standards, then the following consequences, depending on the seriousness of the failure, may apply:

- the parties must arrange for representatives of each of them to meet to review the relevant matters concerning the failure and resolve a plan for implementation to satisfy the benchmarks; or
- the matter may be referred to an independent mediator to assist the parties in developing an action plan and agreeing levels of performance, among other things, and failure to reach agreement enables Vodafone Network to terminate the Agreement.

Under the Agreement the Company receives a fee for the acquisition of subscribers based on a margin in addition to the estimated costs of acquiring the subscribers. Adjustments are required if the Company's

actual costs of acquisition do not correspond to its estimated costs of acquisition. Any repair costs incurred by the Company in respect of customer equipment which are not reimbursed by a third party and which arise within 30 days of connection of a subscriber are included in the Company's actual costs of acquisition.

There are also adjustments required between the parties in the event of disconnections by subscribers within a period up to six months after connection.

In addition to the fee for acquisition of subscribers to Vodafone's mobile telecommunications services, the Company is also entitled to a fee for the management services provided in respect of subscribers which is calculated at a fee each month for each subscriber to whom management services are provided, with adjustments to the fee required in certain circumstances.

The Agreement may be terminated by Vodafone on the occurrence of certain specified events including the insolvency of the Company, breach of a material provision which is not remedied and change in control of the Company. The Agreement may also be terminated in certain circumstances on the occurrence of an event beyond the reasonable control of a party which prevents the performance of all, or a substantial part of, that party's obligations.

The Agreement contains a non-compete obligation on the Company for a period of two years after termination or expiry of the agreement relating to marketing to, and advertising targeted at, Vodafone's subscribers in respect of goods or services which are the same or similar to, or directly compete with, Vodafone's mobile telecommunications services. There is a prohibition on the Company from assigning or otherwise transferring the Agreement without the prior written consent of Vodafone (which must not be unreasonably withheld).

Vodafone is entitled to immediately terminate the agreement if:

- a competitor of Vodafone in Australia obtains the power, whether directly or indirectly, to exercise or control the exercise of 20% or more of the voting power attaching to securities in the Company, except by "creeping" under the provisions of the Corporations Law; or
- a competitor of Vodafone in Australia obtains the power to control, whether directly or indirectly, any position on the Board of the Company.

During the term of the Agreement, the Company must continue, and must procure that Innovations Direct Pty Limited continues, to be bound by the terms of a marketing agreement between Innovations Direct Pty Ltd, Innovations Mail order Limited and the Company at least six months before the expiry of the Agreement, the parties may enter into bona fide negotiations to extend the term of the Agreement for a further period agreed between the parties. Neither party is under any obligation to enter into an extension of the Agreement or a new agreement.

The Company Secretary has reviewed the share register as at 27 August 1999 and is not aware of any competitor of Vodafone having obtained the power, whether directly or indirectly, to exercise or control the exercise of 20% or more of the voting power attaching to the securities in the Company nor has any competitor obtained the power to control, directly or indirectly, any position on the Board of the Company.

Notes to and forming part of the Financial Statements (continued)

for the financial year ended 30 June 1999

	1999 \$000	1998 \$000
25. DIVIDENDS		
Dividends paid or proposed during the financial year, fully franked at 36%. This dividend was paid on 1 July 1999	7,000	–
Adjusted franking account balance	<u>2,135</u>	<u>–</u>

26. SUBSEQUENT EVENTS

On 6 September 1999, the Company announced plans to expand operations into 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 22 September 1999, the Company 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 recently finalised a long distance resale agreement with Cable & Wireless Optus.

There has not been any other matter or circumstance, 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.

27. EARNINGS PER SHARE

	1999 Cents per Share
Basic earnings per share	<u>16.40</u>
Basic earnings per share excluding abnormal items	<u>5.17</u>

Diluted earnings per share is not materially different from basic earnings per share and therefore is not disclosed in the financial statements

	1999 No. 000
The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	<u>110,000</u>

Directors' Declaration

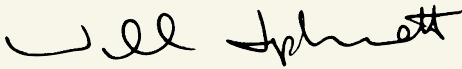
for the financial year ended 30 June 1999

The Directors declare that:

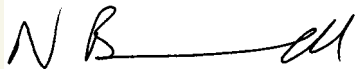
- (a) The attached financial statements and notes thereto comply with accounting standards;
- (b) The attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company;
- (c) In the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Law; and
- (d) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors, made pursuant to section 295(5) of the Corporations Law.

On behalf of the Directors



W Jephcott
Chairman



N W H Bramwell
Managing Director

Sydney, 28th September 1999

Independent Audit Report

to the members of Mobile Innovations Limited

**Deloitte Touche
Tohmatsu**



Grosvenor Place
225 George Street Sydney 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

DX 10307SSE
Telephone (02) 9322 7000
Facsimile (02) 9322 7001

SCOPE

We have audited the financial report of Mobile Innovations Limited for the financial year ended 30 June 1999 as set out on pages 22-41. The Company's Directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the Company's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion, the financial report of Mobile Innovations Limited is in accordance with:

- (a) the Corporations Law, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 1999 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter McIver

P McIver

Partner

Chartered Accountants

Sydney, 28th September 1999

The liability of Deloitte Touche Tohmatsu, is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW)

Additional Stock Exchange Information

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary Share Capital

110,000,100 fully paid ordinary shares are held by 1,919 individual shareholders.

All issued ordinary shares carry one vote per share.

Options

• 7,530,000 options are held by 49 individual optionholders.

Options do not carry a right to vote.

Distribution of Holders of Equity Securities as at 7 September 1999

	Fully Paid Ordinary Shares	Options
1 – 1,000	74	–
1,001 – 5,000	1,195	2
5,001 – 10,000	355	4
10,001 – 100,000	264	24
100,001 and over	31	19
	1,919	49
Holding less than a marketable parcel	21	–

Substantial Shareholders

	Number	Fully Paid Percentage
Haley BV	38,850,050	36.30
Innovations Holdings Pty Limited	38,850,050	36.30
	77,700,100	72.60

Additional Stock Exchange Information (continued)

Twenty Largest Holders of Quoted Equity Securities as at 7 September 1999

	Note	1999 \$000	1998 \$000
Haley BV		38,850,050	35.32
Innovations Holdings Pty Limited		38,850,050	35.32
BT Custodial Services Pty Limited		2,740,200	2.49
IOOF Australia Trustees (NSW) Limited		2,400,000	2.18
National Nominees Limited		2,325,556	2.11
Perpetual Trustee Company Limited		2,259,140	2.05
Chase Manhattan Nominees Limited		1,164,560	1.06
Macquarie Life Limited		1,114,260	1.01
AMP Life Limited		899,300	0.82
Sandhurst Trustees Limited		868,772	0.79
Bond Street Australia Limited		841,824	0.77
Suncorp General Insurance Limited		453,000	0.41
Mr Carl Holt		430,000	0.39
Suncorp Life & Superannuation Limited		417,000	0.38
Warnford Nominees Pty Limited		399,077	0.36
Victorian Workcover Authority		273,600	0.25
Mercantile Mutual Life Insurance Company Limited		272,614	0.25
National Australia Trustees Limited		225,000	0.20
McRoss Developments Pty Limited		220,000	0.20
Mrs Jean Susanna Gamble		210,000	0.19
		<u>95,214,003</u>	<u>86.56</u>

Company Directory

COMPANY DIRECTORS

William Jephcott (Non-executive Chairman)
Nigel Bramwell (Managing Director)
Chris Shaw (Non-executive Director)

COMPANY SECRETARY

Mr R Stonell

SOLICITORS

Gilbert & Tobin
Level 4, 50 Carrington Street
Sydney NSW 2000

AUDITOR

Deloitte Touche Tohmatsu
Level 9, 225 George Street
Sydney NSW 2000

PRINCIPAL REGISTERED OFFICE

431 Warringah Road
Frenchs Forest NSW 2086
Tel: (02) 9454 4500

PRINCIPAL ADMINISTRATION OFFICE

431 Warringah Road
Frenchs Forest NSW 2086
Tel: (02) 9454 4500

SHARE REGISTRY

Computershare Registry Services
60 Carrington Street
Sydney NSW 2000
Tel: (02) 8234 5000

STOCK EXCHANGE LISTING

Australian Stock Exchange Limited
Code MOB

INTERNET ADDRESS

www.mobileinnovation.com.au