

engin Limited

**Preliminary Final Report Of *engin Limited* for
the Financial Year Ended 30 June 2005**

(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 2005

Previous Corresponding Period: Financial Year Ended 30 June 2004

engin Limited

RESULTS FOR ANNOUNCEMENT TO THE MARKET For the year ended 30 June 2005

Revenue and Net Profit		Percentage Change	Amount \$'000
		%	
Revenue from ordinary activities	Up	31.7%	To 21,659
Profit from ordinary activities after tax attributable to members	Up	38.3%	To 3,935
Net profit attributable to members	Up	38.3%	To 3,935

Dividends (Distributions)	Amount per security	Franked amount per security
One -Off Special Dividend paid in December 2004.	6 c	6 c
One -Off Special Dividend paid in May 2005.	3 c	3 c

Brief Explanation of Revenue, Net Profit and Dividends

engin Limited's ("engin") consolidated revenue increased by 31.7 per cent during the year ended 30 June 2005.

The company's net profit after tax increased by 38.3 per cent during the year ended 30 June 2005 to \$3.9 million. The increase was primarily due to the receipt of proceeds from the Vodafone dispute settlement.

The company's cash balance at 30 June 2005 was \$0.6 million, representing a decrease of \$6.6 million compared to 30 June 2004.

The company paid a 6 cent per share fully franked dividend and a 3 cent per share fully franked dividend during the year totaling \$10.1 million.

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

engin Limited

Statement of Financial Performance For the Financial Year Ended 30 June 2005

	<u>Note</u>	Consolidated	
		<u>2005</u> \$'000	<u>2004</u> \$'000
Revenue from ordinary activities	2(a)	8,459	13,973
Revenue from settlement proceeds	2(a)	13,200	2,467
Share of net profits of associates and joint ventures accounted for using the equity method	2(a)	856	1,198
Changes in inventories of finished goods and work in progress		49	5
Raw materials and consumables used		(1,900)	(1,325)
Marketing expenses		(2,461)	(483)
Employee costs		(5,776)	(5,661)
Communications expense		(840)	(1,392)
Financial institution costs		(360)	(676)
Occupancy costs		(380)	(479)
Bad debt expense and collection costs		(93)	(316)
Retrenchment costs		(855)	-
Legal expenses		(444)	(974)
Depreciation and amortisation expense		(1,837)	(1,758)
Borrowing costs		(22)	(38)
Computer licence fees		(537)	(545)
Other expenses from ordinary activities		(1,460)	(527)
Profit From Ordinary Activities Before Income Tax Expense	2	5,599	3,469
Income tax expense relating to ordinary activities		(1,664)	(624)
Profit From Ordinary Activities After Related Income Tax Expense		3,935	2,845
Net Profit		3,935	2,845
Net Profit Attributable to Members of the Parent Entity		3,935	2,845
Total Changes In Equity Other Than Those Resulting From Transactions With Owners As Owners		3,935	2,845
		3,935	2,845

engin Limited

**Statement of Financial Position
As at 30 June 2005**

	Note	Consolidated	
		2005 \$'000	2004 \$'000
Current Assets			
Cash assets	5(a)	588	7,187
Receivables		757	1,544
Inventories		72	23
Tax assets		13	-
Security deposits	6	2,285	-
Other		131	189
Total Current Assets		3,846	8,943
Non-Current Assets			
Investments accounted for using the equity method		191	135
Property, plant and equipment		1,990	2,579
Deferred tax assets		-	1,191
Total Non-Current Assets		2,181	3,905
Total Assets		6,027	12,848
Current Liabilities			
Payables		1,713	1,038
Interest-bearing liabilities		126	255
Current tax liabilities		-	920
Provisions		245	303
Other		-	38
Total Current Liabilities		2,084	2,554
Non-Current Liabilities			
Interest-bearing liabilities		-	106
Provisions		71	125
Total Non-Current Liabilities		71	231
Total Liabilities		2,155	2,785
Net Assets		3,872	10,063
Equity			
Contributed equity		221	221
Retained profits	4	3,651	9,842
Total Equity		3,872	10,063

engin Limited

**Statement of Cash Flows
For the Financial Year Ended 30 June 2005**

	<u>Note</u>	<u>Consolidated</u>	
		<u>2005</u> <u>\$'000</u>	<u>2004</u> <u>\$'000</u>
<i>Cash Flows From Operating Activities</i>			
Receipts from customers		10,644	18,016
Receipts from Vodafone		11,200	-
Payments to suppliers and employees		(16,642)	(14,113)
Dividends received		975	1,500
Interest received		260	428
Interest and other costs of finance paid		(22)	(38)
Income tax paid		(1,405)	(691)
Net cash provided by operating activities	5(c)	<u>5,010</u>	<u>5,102</u>
<i>Cash Flows From Investing Activities</i>			
Payment for property, plant and equipment		(1,248)	(1,002)
Net cash used in investing activities		<u>(1,248)</u>	<u>(1,002)</u>
<i>Cash Flows From Financing Activities</i>			
Dividends paid		(10,126)	(1,688)
Repayment of borrowings		(235)	(224)
Net cash used in financing activities		<u>(10,361)</u>	<u>(1,912)</u>
<i>Net (Decrease) / Increase In Cash Held</i>		(6,599)	2,188
<i>Cash At The Beginning Of The Financial Year</i>		<u>7,187</u>	<u>4,999</u>
<i>Cash At The End Of The Financial Year</i>	5(a)	<u>588</u>	<u>7,187</u>

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

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**Notes to the Financial Statements
For the Year Ended 30 June 2005**

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 2004 annual financial report.

	Consolidated	
	2005 \$'000	2004 \$'000
 2. Profit From Ordinary Activities		
Profit from ordinary activities before income tax includes the following items of revenue and expense:		
(a) Operating Revenue		
Rendering of services	4,296	13,008
Sale of goods	1,598	537
Interest received	260	428
Dividends from Look Distribution Pty Limited	175	-
Customer base migration revenue	2,130	-
	8,459	13,973
Equity share of joint venture's profit	856	1,198
(b) Non-operating Revenue		
Settlement revenue from Vodafone dispute	13,200	2,467
	22,515	17,638
(c) Expenses		
Cost of sales	1,130	1,256
Borrowing costs:		
Finance lease finance charge	22	38
Net bad and doubtful debts (recovery) / expense	(12)	109
Depreciation and amortisation of non-current assets:		
Billing system and other plant & equipment	1,512	1,544
Finance lease equipment	325	214

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

3. **Commentary on Consolidated Results**

Directors Comments

The Board of engin (formerly Mobile Innovations Limited) reports a net profit after tax for the year ended 30 June 2005 of \$3.9 million, which represents an increase of 38% compared to 30 June 2004. This is largely due to the settlement of the ASP Vodafone dispute.

Cash at bank, including security deposits, decreased by a net \$4.3 million. Major components of the movement comprise:

• Receipt of settlement proceeds from Vodafone ¹	\$13.2 million
• Dividends received	\$1.0 million
• Payment of fully franked dividends	(\$10.1 million)
• Net operating activities	(\$5.8 million)
• Capital asset purchases	(\$1.2 million)
• Company tax payments	(\$1.4 million)

¹ The receipt of settlement proceeds from Vodafone includes restricted cash of \$2 million, which remains in trust until 1 April 2006.

Over the past year, the company has changed its core business activity from mobile telephony to broadband telephony or Voice over Internet Protocol (“VoIP”) and this has been accompanied by a name change to engin Limited.

Vodafone Agent Service Provider (ASP) Agreement Terminated

Until December 2004, the Company (formerly “Mobile Innovations Limited”) operated as an Agent Service Provider (“ASP”) of mobile phone customer services on behalf of Vodafone.

A legal dispute with Vodafone emerged in late 2001, which was subject to various appeals before agreement was reached. On 27 October 2004, the ASP agreement with Vodafone was terminated and all proceedings before the Supreme and High Courts ceased. As part of the termination, Vodafone paid engin (Mobile Innovations) \$13.2 million plus GST in the current year in addition to prior year amounts and cost reimbursements totalling \$3.6 million. As a result of this agreement, the company’s mobile telephony business effectively ceased. Although engin retains a 50% interest in Look Mobile Distribution Pty Limited (a NSW and Queensland distributor of Vodafone services to small/medium enterprises) and 50% interest in Look Mobile Limited, it does not expect significant dividends from these businesses going forward.

The final instalment of \$4.4 million was received from Vodafone in April 2005. A \$2 million bond remains in place until 1 April 2006 in respect of the terms of settlement. The Company is unaware of any circumstance which could result in a claim being made against this bond.

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

3. Commentary on Consolidated Results (continued)

Dividends

The Board of engin resolved to return a substantial portion of the net proceeds from the Vodafone settlement to shareholders in the form of fully franked dividends. On 2 May 2005, a fully franked dividend of 3¢ per share was declared, amounting to \$3.375 million. Prior to this, on 21 December 2004, engin paid a fully franked dividend of 6¢ per share, amounting to \$6.75 million.

Customer Base Transfer

The termination of the ASP Agreement resulted in the mobile phone customer bases under management being transferred to Vodafone's nominee VIG Employees Pty Limited ("VIG").

VIG performed due diligence from November to December 2004, taking ownership of the customer bases from 5 January 2005. The Company provided VIG with transitional customer management services until 14 February 2005 as well as services relating to the migration of the customer base. In total the Company's headcount reduced from 85 to 48 as a result of the transfer, with customer management related staff being made redundant.

The Terms of Settlement resulted in the Company being reimbursed the cost of customer migration and terminating related commitments, which totalled \$2.1 million.

engin background

engin's broadband telephony business was formed as a new telecommunications enterprise by the Company in late 2003. The business provides fixed line telephony to residential and cost conscious businesses by utilising broadband telephony with their broadband connection. The engin telephone service allows users to make and receive phone calls, using their existing handsets, over a broadband internet connection. The Company's offer provides a high level of value added services, at lower prices in most cases than telephone charges of traditional telephone carriers over the "Plain Old Telephone Systems".

The Company was granted a telecommunications licence in March 2004 and began building a broadband telephone network that now includes 11 points of presence in most major capital cities and selected regional centres. The Company commercially launched its services in September 2004 and now markets and sells a range of telephony products and services.

The Company has progressed through proof of concept, technology selection, gaining a carriers licence, building its network and commercially launching its services. The core strategy of the Company is now to continue to grow its broadband telephony business that is focused on providing a new, cheaper and enhanced telephone service to the residential and cost conscious business markets.

Since the commercial deployment of its telephone network in September 2004, the number of paying customers of engin has grown consistently. Many of engin's customers are making substantial savings on their fixed line phone bills by using the Company's services.

Any consumer that has a broadband internet connection can use the Company's telephone services. engin is a broadband telephony service that is broadly available to Australian consumers whose enabling products are sold through major Australian retailers as well as wholesale and direct marketing channels. The Company's product suite comprises three main products, all of which provide telecommunication alternatives to Australian consumers and businesses.

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

3. Commentary on Consolidated Results (continued)

Sales and Distribution

The Company sells its services and products via the following four distribution channels, namely direct sales, retail sales, dealer sales and wholesale, as follows:

- Directly to customers through the Company's own website, dedicated call centre and through its strategic relationship with the Interfine Group, Australia's largest diversified home shopping and direct marketing retailers.
- Retail channels currently comprise over 1,000 retail outlets including Harvey Norman, Office Works, Leading Edge Group, Dick Smith Electronics, Tandy and Powerhouse.
- Dealer channels comprise telecommunications and IT specialist distributors.
- Wholesale arrangements are in place with broadband ISP's that give the clients of these organisations the opportunity to access broadband telephony.

Funding

The company has raised \$5.9 million since year end via a partially underwritten pro-rata non-renounceable Rights Issue of 3 new shares for every 4 shares held at an issue price of \$0.07 per new share. The Rights Issue Prospectus was lodged with the ASIC on 5 July 2005 and the successful completion of the issue was announced on 11 August 2005. The proceeds of the Offer will primarily be used to:

- increase the Company's marketing activities to continue to build its brand and acquire new customers;
- fund the acquisition of essential capital equipment and software licenses; and
- provide ongoing working capital.

Subscribers

At 13 September 2005 the Company had a base of 13,000 subscribers services, 4,000 of which use the free computer based services and 9,000 of which are paying services.

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

	2005 \$'000	2004 \$'000
4. Retained Profits		
Balance at beginning of financial year	9,842	6,997
Net profit attributable to members of the parent entity	3,935	2,845
Dividends paid	(10,126)	-
Balance at end of financial year	<u>3,651</u>	<u>9,842</u>

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

	2005	2004
	\$'000	\$'000
5. 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	588	7,187
	<hr/>	<hr/>
	588	7,187
	<hr/>	<hr/>
<i>(b) Cash Balances Not Available for Use</i>		
Security Deposits - Other	-	83
	<hr/>	<hr/>
	-	83
	<hr/>	<hr/>

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

	2005 \$'000	2004 \$'000
5. 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	3,935	2,846
Share of joint venture entities profit (less dividends)	(56)	302
Depreciation and amortisation of non-current assets	1,837	1,758
(Decrease)/increase in current tax liability	(933)	485
Decrease/(increase) in deferred tax balances	1,191	(553)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase)/decrease in assets:		
Current receivables	787	373
Current inventories	(49)	(5)
Current security deposits	(2,285)	-
Other current assets	58	(47)
Increase/(decrease) in liabilities:		
Current trade payables	675	(65)
Other current liabilities	(96)	2
Other non-current liabilities	(54)	6
	5,010	5,102
Net cash from operating activities	5,010	5,102

6. Security Deposits

Security Deposits – Vodafone bond	2,000	-
Security Deposits - Other	285	-
	2,285	-
	2,285	-

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

7. Details Relating to Dividends (Distributions)

		Date dividend payable	Amount per security ¢	Amount per security of foreign sourced dividend ¢
Special dividend	2005	21/12/2004	6.0	-
		02/05/2005	3.0	-
	2004	-	-	-
Total	2005	21/12/2004	6.0	-
		02/05/2005	3.0	-
	2004	-	-	-

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

	2005 ¢	2004 ¢
Ordinary securities (each class separately)	9.0	-

Interim and final dividend (distribution) on all securities

	2005 \$'000	2004 \$'000
Ordinary securities (each class separately)	10,126	-
Total	10,126	-

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

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

	2005 ¢ per share	2004 ¢ per share
Basic EPS	3.50	2.53
Diluted EPS	3.43	2.53

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:

	2005 \$'000	2004 \$'000
Earnings (a)	3,935	2,845

	2005 No. '000	2004 No. '000
Weighted average number of ordinary shares (b)	112,512	112,512

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

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:

	2005 \$'000	2004 \$'000
Net profit	3,935	2,846
Earnings used in the calculation of basic EPS	3,935	2,846

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:

	2005 \$'000	2004 \$'000
Earnings (a)	3,935	2,845

	2005 No. '000	2004 No. '000
Weighted average number of ordinary shares and potential ordinary shares (b)	114,864	112,512

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

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:

	2005 \$'000	2004 \$'000
Net profit	3,935	2,845
	<u>3,935</u>	<u>2,845</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:

	2005 No. '000	2004 No. '000
Weighted average number of ordinary shares used in the calculation of basic EPS	112,512	112,512
Employee Options	2,352	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	<u>114,864</u>	<u>112,512</u>

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

9. Net Tangible Assets Per Security

	2005 cents	2004 cents
Net tangible assets per security	3.4	8.9

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.

**2005
\$'000**

NIL

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

**2004
\$'000**

NIL

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

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

**2005
\$'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

**2004
\$'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	
	2005 %	2004 %	2005 \$'000	2004 \$'000
Associates	-	-	-	-
Joint Venture Entities				
Look Mobile Limited	50	50	856	1,198
Aggregate Share of Profits	N/A	N/A	856	1,198

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

12. Segment Information

Information on Business Segments

	Revenues from External Customers		Results		Assets	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<i>Agent Service Provider (1)</i>	20,715	17,205	11,684	3,834	11,477	12,412
<i>Broadband Telephony (2)</i>	1,540	5	(6,324)	(755)	2,767	824
<i>Total segments</i>	22,255	17,210	5,360	3,079	14,244	13,236
<i>Eliminations</i>	-	-	-	-	(8,230)	(1,579)
<i>Unallocated</i>	260	428	239	390	13	1,191
<i>Profit from ordinary activities before income tax expense</i>			5,599	3,469		
<i>Income tax expense relating to ordinary activities</i>			(1,664)	(624)		
<i>Net Profit</i>	22,515	17,638	3,935	2,845	6,027	12,848

(1) engin Limited (formerly Mobile Innovations Limited) operated predominately in the telecommunications industry within Australia as an Agent Service Provider. The share of net profits of the joint venture entity Look Mobile Limited are also included as revenues.

(2) MIBroadband Pty Limited operates as a provider of Broadband Telephony services within Australia.

	Liabilities		Depreciation		Acquisition of Assets	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<i>Agent Service Provider</i>	639	1,504	1,511	1,718	19	194
<i>Broadband Telephony</i>	9,620	1,579	327	40	1,229	808
<i>Total segments</i>	10,259	3,083	1,838	1,758	1,248	1,002
<i>Eliminations</i>	(8,230)	(1,579)	-	-	-	-
<i>Unallocated</i>	126	1,281	-	-	-	-
	2,155	2,785	1,838	1,758	1,248	1,002

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

12. Segment Information (continued)

	Other segment information	
	2005 \$'000	2004 \$'000
<i>Agent Service Provider - Carrying value of investments accounted for using the equity method</i>	191	135
<i>Agent Service Provider - Share of net profit of associates & joint venture entities accounted for under the equity method</i>	856	1,198

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

13. Subsequent Events

Rights Issue Funding

The company has raised \$5.9 million post year end via a partially underwritten pro-rata non-renounceable Rights Issue of 3 new shares for every 4 shares held at an issue price of \$0.07 per new share. The Rights Issue Prospectus was lodged with the ASIC on 5 July 2005 and the successful completion of the issue was announced on 11 August 2005. The proceeds of the Offer will primarily to be used to:

- increase the Company's marketing activities to continue to build its brand and acquire new customers;
- fund the acquisition of essential capital equipment and software licenses; and
- provide ongoing working capital.

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

14. Other Significant Information

Going Concern

In the directors opinion, there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they fall due and payable. There are adequate cash reserves in the entity to cover the growth of the engin business.

Options

Option Plan	Exercise Price Per Option	Issue Date	Expiry Date	Number of Options Outstanding as at 1 July 2004	Number of Options Exercised	Number of Options Lapsed	Number of Options Outstanding as at 30 June 2005
Executive & Employee Share Option Plan	\$1.00	16 Aug 2000	16 Aug 2005	150,000	-	-	150,000
Executive & Employee Share Option Plan	\$1.00	1 Jan 2001	1 Jan 2006	150,000	-	-	150,000
Executive & Employee Share Option Plan II	\$0.50	16 Aug 2000	16 Aug 2005	1,500,000	-	-	1,500,000
Executive & Employee Share Option Plan II	\$0.50	1 Jan 2001	1 Jan 2006	150,000	-	-	150,000
Executive Share Ownership Plan	\$0.00	27 Jan 2005	30 Nov 2009	-	-	-	5,500,000
Executive Share Ownership Plan	\$0.00	27 Jun 2005	30 Nov 2009	-	-	-	3,800,000
Total				1,950,000	-	-	11,250,000

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

15. Impacts of Adopting Australian Equivalents to International Financial Reporting Standards (A-IFRS)

The consolidated entity will be required to prepare financial reports that comply with Australian equivalents to International Financial Reporting Standards (A-IFRS) for reporting periods commencing 1 July 2005. The first annual financial report to be prepared by the consolidated entity in accordance with A-IFRS will be the financial report for the year ending 30 June 2006. A-IFRS also requires the consolidated entity to restate comparative balances. As a result, the opening statement of financial position of the consolidated entity as at 1 July 2004 will be restated so that all transactions and balances are recognised and measured in accordance with A-IFRS. As a result the balances that are presented in respect of the year ended 30 June 2005 may not be the balances that will be presented as comparative numbers in the financial report for the year ending 30 June 2006. As any adjustments on first-time adoption are to be made against opening retained earnings, the amount of retained earnings at 30 June 2004 presented in the 2005 financial report and the 2006 financial report available to be paid out as dividends may be different.

Various voluntary and mandatory exemptions are available to the consolidated entity on first-time adoption, which will not be available on an ongoing basis. The exemptions provide relief from retrospectively accounting for certain balances, instruments and transactions in accordance with A-IFRS, and includes relief from having to restate past business combinations, expense share-based payments granted before 7 November 2002, and the identification of a 'deemed cost' for property, plant and equipment.

A formal A-IFRS conversion project commenced during the previous reporting period. The project consisted of impact assessment and evaluation, and implementation. Management have consulted with A-IFRS specialists to ensure that interpretation of the standards and application to the consolidated entity is as intended.

At the date of this Preliminary Final Report, the consolidated entity has substantially completed the project plan, including assessment of accounting policy alternatives on transition to A-IFRS, the finalisation of the A-IFRS accounting policies that have been adopted from 1 July 2005, and the determination of the likely impacts on the results and financial position of the consolidated entity. The directors may, at any time until the completion of the consolidated entity's first A-IFRS compliant financial report, elect to revisit, and where considered necessary, revise the accounting policies applied in preparing the information provided below.

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

**15. Impacts of Adopting Australian Equivalents to International
Financial Reporting Standards (A-IFRS) (continued)**

The likely impacts of A-IFRS on the results and financial position of the consolidated entity

The following narration outlines the likely impacts on the current year financial result and financial position of the consolidated entity had the Preliminary Final Report been prepared using A-IFRS, based on the directors' accounting policy decisions current at the date of this Preliminary Final Report. Readers should note that further developments in A-IFRS (for example, the release of further pronouncements by the Australian Accounting Standards Board and the Urgent Issues Group), if any, may result in changes to the accounting policy decisions made by the directors and, consequently, the likely impacts outlined in the following narration.

Income Tax

Under AASB 112 'Income Taxes' ("AASB 112"), a balance sheet approach is adopted and temporary differences are identified for each asset and liability rather than accounting for the effects of timing and permanent differences between taxable income and accounting profit.

No material impact is expected on transition or for the year ended 30 June 2005 as a result of this change in approach.

Under current Australian Accounting Standards, deferred tax assets are only carried forward as assets where realisation of the related benefit is assured beyond any reasonable doubt. Under AASB 112, deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Applying the "probable" test in AASB 112 would result in an increase in deferred tax assets attributable to timing differences and a corresponding increase in profit and loss for the financial year ended 30 June 2005 of \$251,000. The deferred tax assets were not recognised in the statement of financial position as at 30 June 2005 as the realisation of the related benefit was not virtually certain.

The consolidated entity at 30 June 2004 and 30 June 2005 has capital losses of \$257,000 which are not recognised under current A-GAAP as they were not virtually certain of realisation. At the date of this Preliminary Final Report, the directors believe that under AASB 112 it is not probable that capital profits will be available against which these losses can be utilised.

Share Based Payments

Equity-settled share based payments in respect of equity instruments issued after 7 November 2002 that were unvested as at 1 January 2005 are measured at fair value at grant date. The fair value determined at grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the estimated number of equity instruments that will vest.

The calculation of this expense has not been finalised at the date of this report, however is expected to range from \$226,000 to \$353,000 for the financial year ended 30 June 2005. As a consequence, contributed equity will increase by \$226,000 to \$352,000 and an additional employee benefit expense of \$226,000 to \$352,000 will be recognised in profit and loss for the financial year ended 30 June 2005.

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

15. Impacts of Adopting Australian Equivalents to International Financial Reporting Standards (A-IFRS) (continued)

Impairment of Assets

Under current Australian Accounting Standards, non-current assets are written down to recoverable amount when the asset's carrying amount exceeds recoverable amount. In determining recoverable amount of its non-current assets the consolidated entity has not historically discounted cash flows.

Under A-IFRS, both current and non-current assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount. Recoverable amount under A-IFRS is the higher of "fair value less costs to sell" and "value in use". In assessing "value in use" A-IFRS requires the estimated future cash flows to be discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If there is any indication that an asset is impaired, the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement. Impairment losses recognised in respect of a cash generating unit will be allocated to reduce the carrying amount of assets in the unit on a pro rata basis to their carrying amounts.

No impairment loss has been identified for the consolidated entity either on transition to A-IFRS or for the year ended 30 June 2005.

Financial Instruments

engin Limited has elected to apply the first-time adoption election available in AASB 1 to defer the date of transition of AASB 132 'Financial instruments: Disclosure and Presentation' (AASB 132) and AASB 139 'Financial Instruments: Recognition and Measurement' (AASB 139) until 1 July 2005. Accordingly, there are no expected adjustments in relation to these standards on transition or for the year ended 30 June 2005.

**Notes to the Financial Statements
For the Year Ended 30 June 2005**

15. Impacts of Adopting Australian Equivalents to International Financial Reporting Standards (A-IFRS) (continued)

Revenue from Ordinary Activities

Although not impacting the net profit of the consolidated entity, the adoption of A-IFRS will result in a number of transactions being recorded on a “net” rather than a “gross” basis. In addition, the adoption of A-IFRS results in the reclassification of selected revenue items from “revenue from ordinary activities” to other income and expense items in the statement of financial performance.

Based upon work performed to date, the following items have been identified as potential impact items:

- there are no proceeds from sale of non-current assets in respect of the year ended 30 June 2005. Consequently there will be no impact on revenue from ordinary activities in respect of the year ended 30 June 2005
- equity accounted profit from associates has been recognised as revenue for the year ended 30 June 2005. Reclassification of this item will be required from “revenue from ordinary activities” to “other income” on transition to A-IFRS. This will result in revenue from ordinary activities decreasing by \$856,000 and other income increasing by \$856,000.
- Settlement revenue from the Vodafone dispute has been recognised as revenue for the year ended 30 June 2005. Reclassification of this item will be required from “revenue from ordinary activities” to “other income” on transition to A-IFRS. This will result in revenue from ordinary activities decreasing by \$13,200,000 and other income increasing by \$13,200,000.

16. 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