

engin Limited

ACN 063 582 990

Appendix 4D and Financial Report for the Half-
Year Ended 31 December 2005

Appendix 4D for the Half-Year Ended 31 December 2005

Results For Announcement to the Market

This Half-year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3

Current Reporting Period: Half year Ended 31 December 2005

Previous Corresponding Period: Half Year Ended 31 December 2004

Revenue and Net Profit	<i>Percentage Change</i>	Amount
	%	\$
Revenue (excludes share of net profits of associates accounted for using the equity method)	Down	To
	33%	3,032,922
Loss from ordinary activities after tax attributable to members	Down	To
	150%	3,746,436
Net loss attributable to members	Down	To
	150%	3,746,436
	Half Year Ended 31 Dec 2005	Half Year Ended 31 Dec 2004
Net tangible assets per security (cents per security)	3.4	9.2
	Amount per security	Franked amount per security
Dividends (Distributions)	-	-
No dividends were paid during the period		

Brief Explanation of Revenue, Net Profit and Dividends

The half year to 31 December 2005 represents the first period the company has traded solely as engin Limited ("engin"). The prior year result included the booking of \$13.2 million of other income relating to the settlement of the Agent Service Provider Agreement with Vodafone.

Cash at bank and security deposits at 31 December 2005 was \$3.9 million (June 2005 \$2.9 million), this includes the \$2.0 million held as a bond to be released on 1 April 2006 re the Vodafone settlement, disclosed as "Security Deposits". The increase in the cash position during the 6 months is due to cash raised in the Right Issue finalised in August 2005.

engin Limited

Appendix 4D for the Half-Year Ended 31 December 2005

Details Relating to Dividends (Distributions)

		<u>Date dividend paid</u>	<u>Amount per security ¢</u>	<u>Amount per security of foreign sourced dividend ¢</u>
	Dec 2005		-	-
Special dividend	Dec 2004	21 Dec 2004	6	-

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

	<u>Dec 2005 ¢</u>	<u>Dec 2004 ¢</u>
Ordinary securities (each class separately)	-	6

Interim and final dividend (distribution) on all securities

	<u>Dec 2005 \$</u>	<u>Dec 2004 \$</u>
Ordinary securities (each class separately)	-	6,750,726
Total	-	6,750,726

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

engin Limited

Appendix 4D for the Half-Year Ended 31 December 2005

Details of Associates and Joint Venture Entities

Name of Entity	Ownership Interest		Contribution to net profit	
	Dec 2005 %	Dec 2004 %	Dec 2005 \$	Dec 2004 \$
Joint Venture Entities				
Look Mobile Limited	50	50	154,644	798,047
Aggregate Share of Profits	N/A	N/A	154,644	798,047

**Financial Report
for the Half-Year Ended 31 December 2005**

	<i>Page Number</i>
<i>Directors' Report</i>	2
<i>Independent Review Report</i>	6
<i>Directors' Declaration</i>	7
<i>Income Statement</i>	8
<i>Balance Sheet</i>	9
<i>Cash Flow Statement</i>	10
<i>Statement of Changes in Equity</i>	11
<i>Notes to the Financial Statements</i>	12

engin Limited

Directors' Report

The directors of engin Limited submit herewith the financial report for the half-year ended 31 December 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the company during and since the end of the half-year are:

Name	Particulars
William Jephcott	Chairman, investment banker, aged 55, joined the board on 15 April 1999 as non-executive chairman and is currently vice-chairman Investment Banking Group with Merrill Lynch International (Australia) Limited. He is the deputy chairman of ROC Oil Company Limited and a director of New South Wales Rugby Union Limited. Mr Jephcott is a member of the Audit, Nomination and Remuneration Committees.
Nigel Bramwell	Non-executive director, aged 48, was managing director of the company from March 1994 to July 2000.
Chris Shaw	Chartered accountant, aged 57, joined the board in 1994 in a non-executive capacity, and is an executive director of Interfine Holdings Pty Limited. Mr Shaw is a member of the Audit, Nomination and Remuneration Committees.
Neil Gamble	Chartered accountant, aged 53, joined the board on 25 November 1999. Mr Gamble has been a senior executive of public companies including the Wormald Group, Australis Media Limited, Star City Holdings Limited and Solution 6 Holdings Ltd. Mr Gamble is currently CEO of Medallist Developments Pty Limited and Chairman of CVC Private Equity Ltd. Mr Gamble is chairman of the Audit, Nomination and Remuneration Committees.

Review Of Operations

engin Limited (“the Company”) announces a half year loss after tax of \$3.746 million, compared to the December 2004 profit of \$7.452 million. The Half Year to December 2004 result included other income of \$13.2 million relating to the final settlement of the Agent Service Provider Agreement with Vodafone. The Half Year to 31 December 2005 represents the first financial reporting period that the company has traded solely as engin.

2005 marked an exceptional first year for engin, with its achievements including:

- Establishing relationships with mass retail distribution partners including Dick Smith Electronics, Harvey Norman, Officeworks, Powerhouse, Tandy, Harris Technology, Big W and Leading Edge Group.
- Establishing wholesale relationships with 17 Internet Service Providers including People Telecom, Ace Communications and TasTel/Aurora Energy.
- First to market with “000” termination globally, a 2 way softphone, PSTN failover and converged fixed mobile product.
- Multiple award winner including the Australian Innovation Award (AiiA) in the communications category and the Australian Telecommunications Users Group (ATUG) award for Best Communications Solution – Small Business.
- Establishing partnerships with Netgear and Linksys to facilitate the Company’s expansion of its engin-enabled product range

Directors' Report

Review Of Operations (continued)

Rights Issue

In August 2005, the company completed a 3:4 non-renounceable Rights Issue at 7 cents per share, raising \$5.9 million.

Growth

Paying Subscriber lines

Paying subscribers lines grew from 6,000 paying subscriber lines as at 30 June 2005 to in excess of 18,100 as at 31 December 2005. As at the end of February the paying subscriber line base reached 24,000 subscriber lines and 5,500 non paying subscribers on the free softphone service.

Usage

Usage across the engen network has doubled in the last four months, with in excess of 2,000,000 minutes of traffic per week used by engen customers.

Revenue

Revenue generated by the engen business grew by 143% to \$3.03 million in the half year to December 2005, (\$1.25 million half year to June 2005).

Outlook

engen's core business is tracking as expected and heading towards operational cash breakeven early in the new financial year.

Given the significant progress made to date, the board of engen have committed to the following strategies in the coming 4 months which will enhance the companies growth potential and market reach;

1. upgrading network capacity in the coming quarter to support up to 250,000 subscriber lines
2. using the already established infrastructure to launch into the NZ market with existing key distribution partners

Subsequent Events

On 19 January 2006, the company placed 29.5 million ordinary shares at \$0.14 per share raising \$4.1 million (\$3.8 million net of brokerage and placement fees). The new funding will be principally used to accelerate marketing efforts and product development with a view to significantly increasing the number of subscriber lines and revenue in 2006. Cash at bank is currently \$5.7m.

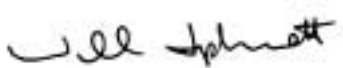
Directors' Report

Auditor's Independence Declaration Under Section 307C of The Corporations Act 2001

The auditor's independence declaration is set out on page 5 and forms part of the Director's Report for the half year ended 31 December 2005.

Signed in accordance with a resolution of the directors.

On behalf of the directors



.....
Mr W Jephcott
Chairman

Sydney, 9 March 2006

The Board of Directors
engin Limited
431 Warringah Road
Frenchs Forest
SYDNEY NSW 2086

9 March 2006

Dear Board Members

engin Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of engin Limited.

As lead audit partner for the review of the financial statements of engin Limited for the half-year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely


DELOITTE TOUCHE TOHMATSU



J Leotta
Partner
Chartered Accountants

Independent review report to the members of engin Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, selected explanatory notes and the directors' declaration for the consolidated entity for the half-year ended 31 December 2005 as set out on pages 7 to 25. The consolidated entity comprises both engin Limited (the company) and the entities it controlled at the end of the half-year or from time to time during the half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review Approach

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001 and Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations, its changes in equity and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of engin Limited is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" and the Corporations Regulations 2001.


DELOITTE TOUCHE TOHMATSU



John Leotta
Partner
Chartered Accountants
Sydney, 9 March 2006

Directors' Declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the disclosing entity will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors, pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors



.....
Mr W Jephcott
Chairman

Sydney, 9 March 2006

engin Limited

Income Statement For the Half Year Ended 31 December 2005

	Consolidated	
	Dec 2005	Dec 2004
	\$	\$
Revenue	3,032,922	4,536,355
Other income from settlement proceeds	-	13,200,000
Share of net profits of associates and joint ventures accounted for using the equity method	154,644	798,047
Changes in inventories of finished goods and work in progress	(80,889)	263,325
Raw materials and consumables used	(1,973,201)	(902,323)
Marketing expenses	(1,396,218)	(853,981)
Employee costs	(3,665,711)	(3,398,253)
Communications expense	(185,512)	(591,387)
IT maintenance costs	(71,433)	(368,116)
Financial institution costs	(61,128)	(231,720)
Occupancy costs	(124,237)	(220,008)
Bad debt expense and collection costs	(113,145)	(145,049)
Legal expenses	(10,493)	(307,826)
Depreciation and amortisation expense	(296,790)	(1,205,590)
Recoverable amount write down	-	(100,000)
Finance costs	-	(13,777)
Other expenses from ordinary activities	(509,056)	(676,411)
<i>(Loss)/Profit Before Income Tax Expense</i>	(5,300,247)	9,783,286
Income tax benefit / (expense)	1,553,811	(2,331,328)
<i>Net (Loss) / Profit After Related Income Tax Benefit) / (Expense) and Attributable to Members of the Parent Entity</i>	(3,746,436)	7,451,958
<i>Earnings per share:</i>		
Basic (cents per share)	(1.9)	6.3
Diluted (cents per share)	(1.9)	6.3

Notes to the financial statements are provided on pages 13-25

engin Limited

Balance Sheet As at 31 December 2005

	Note	Dec 2005 \$	June 2005 \$
<i>Current Assets</i>			
Cash assets and cash equivalents		1,861,098	588,034
Receivables		797,886	756,447
Inventories		153,119	72,320
Tax assets		41,774	12,950
Security deposits		2,015,000	2,285,000
Other		68,477	130,275
<i>Total Current Assets</i>		4,937,354	3,845,026
<i>Non-Current Assets</i>			
Investments accounted for using the equity method		41,325	190,660
Property, plant and equipment		2,726,832	1,989,693
Deferred tax assets		1,804,520	250,709
<i>Total Non-Current Assets</i>		4,572,677	2,431,062
<i>Total Assets</i>		9,510,031	6,276,088
<i>Current Liabilities</i>			
Payables		2,400,093	1,710,515
Interest-bearing liabilities		50,018	125,980
Provisions		290,907	245,121
Other		17,874	-
<i>Total Current Liabilities</i>		2,758,892	2,081,616
<i>Non-Current Liabilities</i>			
Provisions		83,425	71,055
<i>Total Non-Current Liabilities</i>		83,425	71,055
<i>Total Liabilities</i>		2,842,317	2,152,671
<i>Net Assets</i>		6,667,714	4,123,417
<i>Equity</i>			
Issued capital		6,127,935	221,054
Employee equity – settled benefits reserve		532,454	148,602
Retained profits		7,325	3,753,761
<i>Total Equity</i>		6,667,714	4,123,417

Notes to the financial statements are provided on pages 13-25

engin Limited

Cash Flow Statement For the Half Year Ended 31 December 2005

	Consolidated	
	Dec 2005	Dec 2004
	\$	\$
<i>Cash Flows From Operating Activities</i>		
Receipts from customers	3,582,347	5,910,922
Receipts from settlement	-	8,800,000
Payments to suppliers and employees	(7,326,038)	(8,033,138)
Interest and other costs of finance paid	(2,714)	(13,777)
Income tax paid	(28,824)	(1,013,297)
Net cash (used) / provided by operating activities	(3,775,229)	5,650,710
<i>Cash Flows From Investing Activities</i>		
Interest received	127,303	167,252
Dividends received	124,000	550,000
Payment for property, plant and equipment	(1,033,929)	(966,297)
Net cash used in investing activities	(782,626)	(249,045)
<i>Cash Flows From Financing Activities</i>		
Repayment of borrowings	(75,962)	(123,034)
Proceeds from issue of equity securities	5,906,881	-
Dividends paid	-	(6,750,726)
Net cash provided by / (used in) financing activities	5,830,919	(6,873,760)
<i>Net Increase / (Decrease) In Cash Held</i>	1,273,064	(1,472,095)
<i>Cash At The Beginning Of The Financial Year</i>	588,034	7,186,685
<i>Cash At The End Of The Financial Year</i>	1,861,098	5,714,590

Notes to the financial statements are provided on pages 13-25

engin Limited

Statement of Changes in Equity For the Half Year Ended 31 December 2005

	Ordinary shares \$	Employee equity-settled benefits reserve \$	Retained earnings \$	Total attributable to equity holders of the entity \$
Balance at 1 July 2005	221,054	148,602	3,753,761	4,123,417
Profit for the period	-	-	(3,746,436)	(3,746,436)
Total recognised income & expense for the period	-	-	(3,746,436)	(3,746,436)
Recognition of share-based payments	-	383,852	-	383,852
Issue of shares	5,906,881	-	-	5,906,881
Dividends	-	-	-	-
Balance at 31 December 2005	6,127,935	532,454	7,325	6,667,714
Balance at 1 July 2004	221,054	-	9,842,296	10,063,350
Profit for the period	-	-	7,451,958	7,451,958
Total recognised income & expense for the period	-	-	7,451,958	7,451,958
Dividends	-	-	(6,750,726)	(6,750,726)
Balance at 31 December 2004	221,054	-	10,543,528	10,764,582

Notes to the financial statements are included on pages 13-25

**Notes to the Financial Statements
For the Half-Year Ended 31 December 2005**

Note	Contents
1	Summary of Accounting Policies
2	Significant Transactions
3	Dividends
4	Subsequent Events
5	Segment Information
6	Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

Notes to the Financial Statements For the Half-Year Ended 31 December 2005

1. Summary of Accounting Policies

Basis of Preparation

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is discussed in note 6.

The accounting policies set out below have been applied in preparing the financial statements for the half-year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 6), the consolidated entity's date of transition.

Significant accounting policies

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

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Notes to the Financial Statements For the Half-Year Ended 31 December 2005

1. *Summary of accounting policies*

(b) Employee benefits

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

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

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

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(c) Financial assets

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

Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements.

Loans and receivables

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

(d) Goods and services tax

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

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

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

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

Notes to the Financial Statements For the Half-Year Ended 31 December 2005

1. *Summary of accounting policies*

(e) Impairment of assets

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

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

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

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

Notes to the Financial Statements For the Half-Year Ended 31 December 2005

1. *Summary of accounting policies*

(f) Income tax

Current tax

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

Deferred tax

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

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. engin Limited is the head entity in the tax-consolidated group.

Notes to the Financial Statements For the Half-Year Ended 31 December 2005

1. Summary of accounting policies

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(h) Joint ventures

Jointly controlled entities

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

(i) Leased assets

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

Consolidated entity as lessee

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised.

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

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

Lease incentives

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

(j) Payables

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

Notes to the Financial Statements For the Half-Year Ended 31 December 2005

1. Summary of accounting policies

(k) Principles of consolidation

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

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(l) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Plant and equipment 3 - 5 years
- Equipment under finance lease 3 years

Notes to the Financial Statements For the Half-Year Ended 31 December 2005

1. Summary of accounting policies

(m) Provisions

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

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

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

An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

Restructuring

Provision for restructurings are recognised when the consolidated entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by:

- starting to implement the plan; or
- announcing its main features to those affected by it.

(n) Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Rendering of services

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

Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(o) Share-based payments

Equity-settled share-based payments granted but unvested as of 1 January 2005, are measured at fair value at the date of grant. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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

(p) Foreign currency transactions.

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

Exchange differences are recognised in the income statement in the period in which they arise

**Notes to the Financial Statements
For the Half-Year Ended 31 December 2005**

2. Significant Transactions

Rights Issue

The company lodged a Prospectus with the ASIC on 5 July 2005 and raised \$5.9 million 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 successful completion of the issue was announced on 11 August 2005. The proceeds of the Offer have been primarily 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.

Vodafone Settlement

The prior financial results include \$13.2 million of other income in relation to the final settlement of the Agent Service Provider Agreement with Vodafone. The half year ended 31 December 2005 was the first financial reporting period where the company traded solely as engin.

2005		2004	
Cents per share	Total \$	Cents per share	Total \$

3. Dividends

Fully paid ordinary shares

Recognised amounts:

- Special dividend paid 21 December 2004
(fully franked)

-	-	6.0	6,750,726
	-		6,750,726

**Notes to the Financial Statements
For the Half-Year Ended 31 December 2005**

4. Subsequent Events

On 19 January 2006, the company completed the placement of 29.5 million ordinary shares at \$0.14 per share raising \$4.1 million (\$3.8 million net of brokerage and placement fees). The new funding will be principally used to accelerate marketing efforts and product development with a view to significantly increasing the number of subscriber lines and revenue in 2006.

5. Segment Information

Primary segment information was previously split by business classification, being the Mobile Innovations business (primarily involved in customer management of mobile phone customers on behalf of Vodafone), and the engin business which operates as a provider of telecommunication Voice Services. As the company now trades solely in the Voice over IP industry in Australia, segment splits are not applicable. The consolidated entity operates wholly within Australia and therefore only one geographical segment is applicable.

Information on Business Segments

	Revenues from External Customers		Results		Assets	
	Dec05	Dec04	Dec05	Dec04	Dec05	Dec04
	\$	\$	\$	\$	\$	\$
<i>Agent Service Provider (1)</i>	-	4,076,659	-	11,834,416	-	17,475,368
<i>Broadband Telephony (2)</i>	3,032,922	292,444	(5,300,247)	(2,204,605)	9,510,031	2,367,617
<i>Total segments</i>	3,032,922	4,369,103	(5,300,247)	9,629,811	9,510,031	19,842,985
<i>Eliminations</i>	-	-		-	-	(5,042,892)
<i>Unallocated</i>	-	167,252	-	153,475	-	367,162
<i>(Loss)/Profit from ordinary activities before income tax expense</i>			(5,300,247)	9,783,286		
<i>Income tax (credit)/expense relating to ordinary activities</i>			1,553,811	(2,331,328)		
<i>Net (Loss)/Profit</i>			(3,746,436)	7,451,958		
	3,032,922	4,536,355	(3,746,436)	7,451,958	9,510,031	15,167,255

- (1) Engin Limited (formerly "Mobile Innovations Limited") operated predominately in the telecommunications industry within Australia as an Agent Service Provider.
 (2) MIBroadband Pty Limited operates as a provider of Broadband Telephony services within Australia.

All sales of the company and wholly owned controlled entities are external sales.

**Notes to the Financial Statements
For the Half-Year Ended 31 December 2005**

6. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

The consolidated entity changed its accounting policies on 1 July 2004 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition.

An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Effect of A-IFRS on the balance sheet as at 1 July 2004

	Note	Consolidated		
		Super- seded policies* \$	Effect of transition to A- IFRS \$	A-IFRS \$
Current assets				
Cash and cash equivalents		7,186,685	-	7,186,685
Trade and other receivables		1,544,182	-	1,544,182
Inventories		23,246	-	23,246
Other		188,914	-	188,914
Total current assets		8,943,027	-	8,943,027
Non-current assets				
Investments accounted for using the equity method		134,683	-	134,683
Property, plant and equipment		2,579,112	-	2,579,112
Deferred tax assets	b	1,191,336	-	1,191,336
Total non-current assets		3,905,131	-	3,905,131
Total assets		12,848,158	-	12,848,158
Current liabilities				
Trade and other payables		1,038,261	-	1,038,261
Borrowings		255,256	-	255,256
Current tax payables		920,211	-	920,211
Provisions		302,667	-	302,667
Other		37,538	-	37,538
Total current liabilities		2,553,933	-	2,553,933
Non-current liabilities				
Borrowings		105,946	-	105,946
Provisions		124,929	-	124,929
Total non-current liabilities		230,875	-	230,875
Total liabilities		2,784,808	-	2,784,808
Net assets		10,063,350	-	10,063,350
Equity				
Issued capital		221,054	-	221,054
Employee equity-settled benefits reserve	a	-	-	-
Retained earnings	c	9,842,296	-	9,842,296
Total equity		10,063,350	-	10,063,350

**Notes to the Financial Statements
For the Half-Year Ended 31 December 2005**

6. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the income statement for the half-year ended 31 December 2004 and the financial year ended 30 June 2005

Note	Half-year ended 31 Dec 2004			Financial year ended 30 Jun 2005		
	Super- seded policies* \$	Effect of transition to A- IFRS \$	A-IFRS \$	Super- seded policies* \$	Effect of transition to A- IFRS \$	A-IFRS \$
	4,536,355	-	4,536,355	8,458,587	-	8,458,587
Revenue from settlement proceeds	13,200,000	(13,200,000)	-	13,200,000	(13,200,000)	-
Share of profits of associates and jointly controlled entities accounted for using the equity method	798,047	-	798,047	855,977	-	855,977
Other income from settlement proceeds	-	13,200,000	13,200,000	-	13,200,000	13,200,000
Changes in inventories of finished goods and work in progress	263,325	-	263,325	49,075	-	49,075
Raw materials and consumables used	(902,323)	-	(902,323)	(1,900,295)	-	(1,900,295)
Employee costs	(3,398,253)	-	(3,398,253)	(5,776,282)	(148,602)	(5,924,884)
Marketing expenses	(853,981)	-	(853,981)	(2,460,810)	-	(2,460,810)
Communications expense	(591,387)	-	(591,387)	(840,174)	-	(840,174)
Depreciation and amortisation expense	(1,205,590)	-	(1,205,590)	(1,837,686)	-	(1,837,686)
Financial institution costs	(231,720)	-	(231,720)	(359,659)	-	(359,659)
Occupancy costs	(220,008)	-	(220,008)	(379,932)	-	(379,932)
Finance costs	(13,777)	-	(13,777)	(21,638)	-	(21,638)
Bad debt expense and collection costs	(145,049)	-	(145,049)	(92,944)	-	(92,944)
Retrenchment costs	-	-	-	(854,547)	-	(854,547)
Legal expenses	(307,826)	-	(307,826)	(444,550)	-	(444,550)
IT maintenance costs	(368,116)	-	(368,116)	(536,957)	-	(536,957)
Recoverable amount writedown	(100,000)	-	(100,000)	-	-	-
Other expenses from ordinary activities	(676,411)	-	(676,411)	(1,459,136)	-	(1,459,136)
Profit before income tax expense	9,783,286	-	9,783,286	5,599,029	(148,602)	5,450,427
Income tax expense	(2,698,490)	367,162	(2,331,328)	(1,663,582)	250,709	(1,412,873)
Profit from continuing operations	7,084,796	367,162	7,451,958	3,935,447	102,107	4,037,554
Profit for the period	7,084,796	367,162	7,451,958	3,935,447	102,107	4,037,554
Profit attributable to members of the parent entity	7,084,796	367,162	7,451,958	3,935,447	102,107	4,037,554

* Reported financial results under previous Australian GAAP.

**Notes to the Financial Statements
For the Half-Year Ended 31 December 2005**

6. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the balance sheet as at 31 December 2004 and 30 June 2005

Note	31 Dec 2004			30 Jun 2005		
	Super-seded policies* \$	Effect of transition to A-IFRS \$	A-IFRS \$	Super-seded policies* \$	Effect of transition to A-IFRS \$	A-IFRS \$
Current assets						
Cash and cash equivalents	5,714,590	-	5,714,590	588,034	-	588,034
Trade & other receivables	6,054,593	-	6,054,593	756,447	-	756,447
Security deposits	-	-	-	2,285,000	-	2,285,000
Inventories	286,580	-	286,580	72,320	-	72,320
Current tax assets	121,721	-	121,721	12,950	-	12,950
Other	-	-	-	130,275	-	130,275
Total current assets	12,177,484	-	12,177,484	3,845,026	-	3,845,026
Non-current assets						
Investments accounted for using the equity method	382,790	-	382,790	190,660	-	190,660
Deferred tax assets	-	367,162	367,162	-	250,709	250,709
Property, plant and equipment	2,239,819	-	2,239,819	1,989,693	-	1,989,693
Total non-current assets	2,622,609	367,162	2,989,771	2,180,353	250,709	2,431,062
Total assets	14,800,093	367,162	15,167,255	6,025,379	250,709	6,276,088
Current liabilities						
Trade & other payables	2,193,096	-	2,193,096	1,710,515	-	1,710,515
Borrowings	238,167	-	238,167	125,980	-	125,980
Current tax payables	461,230	-	461,230	-	-	-
Provisions	377,069	-	377,069	245,121	-	245,121
Other	37,536	-	37,536	-	-	-
Total current liabilities	3,307,098	-	3,307,098	2,081,616	-	2,081,616
Non-current liabilities						
Deferred tax liabilities	952,838	-	952,838	-	-	-
Provisions	142,737	-	142,737	71,055	-	71,055
Total non-current liabilities	1,095,575	-	1,095,575	71,055	-	71,055
Total liabilities	4,402,673	-	4,402,673	2,152,671	-	2,152,671
Net assets	10,397,420	367,162	10,764,582	3,872,708	250,709	4,123,417
Equity						
Issued capital	221,054	-	221,054	221,054	-	221,054
Employee equity-settled benefits reserve	-	-	-	-	148,602	148,602
Retained earnings	10,176,366	367,162	10,543,528	3,651,654	102,107	3,753,761
Total equity	10,397,420	367,162	10,764,582	3,872,708	250,709	4,123,417

* Reported financial position under previous Australian GAAP.

Notes to the Financial Statements For the Half-Year Ended 31 December 2005

6. *Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)*

Effect of A-IFRS on the cash flow statement for the financial period ended 31 December 2004

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

Notes to the reconciliations of income and equity

(a) Share-based payments

For the financial year ended 30 June 2005, share-based payments of \$148,602 (included in 'employee benefit expenses') which was not recognised under the superseded policies were recognised under A-IFRS, with a corresponding increase in the employee equity-settled benefits reserve. The performance rights were granted on 27 January 2005 and 27 June 2005 therefore had no impact on prior periods.

These adjustments had no material tax or deferred tax consequences.

(b) Income tax

Under the superseded policies, the consolidated entity adopted tax-effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under A-IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases.

The effect of the above adjustments on the deferred tax balances are as follows:

	Consolidated		
	1 Jul 2004	31 Dec 2004	30 Jun 2005
	\$	\$	\$
Deferred tax not recognised under previous GAAP	-	367,162	250,709
Net increase in deferred tax balances	-	367,162	250,709

The effect on consolidated profit for the half-year ended 31 December 2004 and the financial year ended 30 June 2005 was to decrease previously reported income tax expense by \$367,162 and \$250,709 respectively.

(c) Retained earnings

The effect of the above adjustments on retained earnings is as follows:

		Consolidated		
	Note	1 Jul 2004	31 Dec 2004	30 Jun 2005
		\$	\$	\$
Expensing share-based payments	a	-	-	(148,602)
Adjustments to tax balances	b	-	367,162	250,709
Total adjustment to retained earnings		-	367,162	102,107
Attributable to members of the parent entity		-	367,162	102,107