

# CEO's report

## To Our Shareholders,

### DEVELOPMENT OF THE BUSINESS

The financial year ended 30 June 2001 has been a year of major change and growth for the Company.

We started the year as an exclusive licensee of PocketMail technology in Australia and New Zealand, and with just over 3,000 active PocketMail users in Australia.

We completed the year as the owners of the PocketMail technology worldwide and with over 50,000 customers, primarily in the U.S., Canada, Australia, U.K., Hong Kong and Singapore.

Central to our progress was the Company's acquisition of the worldwide PocketMail business from privately held Pocket.com Inc, of California, in May 2001. This acquisition has given us the necessary critical mass and the opportunity to build a truly global business.

Following the acquisition, the Company has been focusing on consolidating the various PocketMail operations around the world to reduce the cost base, improve service levels and rebuild revenues in the U.S. market.

All of these are ongoing, but the benefits are already apparent in our day-to-day net operating cash flow which remains on track to be cash flow positive before the end of calendar 2001.

In Australia, we have continued to strengthen our retail distribution such that this Christmas, PocketMail will be on sale in over 1,800 retail stores including Australia Post, Telstra Retail Stores, Strathfield, Brisbane Car Sound, Tandy, Dick Smith Electronics and Target.

In the U.S. we are currently supplying the market through a network of independent PocketMail resellers and through direct sales over the Internet. We plan to significantly increase our channels of distribution over coming months.

During the year, we also continued to develop our products and services. Some of the notable developments included:

- Launch of the PocketMail Composer, a hand-held mobile e-mail device with full PDA functionality;
- Launch of the "My Pocket" service providing PocketMail customers with alternative web-based e-mail access and provision of information services;
- Introduction of the PocketMail mobile credit card payment service providing PocketMail customers with the ability to accept payment through their PocketMail device for the provision of goods and services; and
- Establishment of local PocketMail access in Hong Kong and Singapore to complement existing access in U.S., Canada, U.K. and Australia;

### THE FINANCIALS

PocketMail Group Limited posted a consolidated operating loss after tax of \$14.5 million for the financial year ended 30 June 2001. This was the first full year of operation, the Company having previously only launched its service in March 2000.

The current year result reflects the losses incurred in building up the Australian business, and the consolidated results of the worldwide PocketMail business for the period 10 May 2001 to 30 June 2001.

This result includes write-downs of \$6.2 million associated with the:

- Initial establishment of the Australian business;
- Acquisition of PocketMail licences for Australia and New Zealand; and
- Downward revision of likely recoveries from residual mining assets

The result also reflects \$1.4 million of amortisation charges made against these same intangible assets during the period prior to write-down. More than half of the loss for the year is in these one-off charges totalling \$7.6 million.

Notwithstanding the one-off nature of these charges, the losses incurred in the year are significant and much larger than contemplated when the business was established. In reality, the losses represent the investment cost of getting the business to where it is today – that is a business with critical mass in subscribers, more established annuity style cash flows and opportunity for future growth and profitability.

# CEO's report

## CASH FLOW

In our Statement of Cash Flows to the market for the quarter ended 30 June 2001, we reported that net cash generated from operating activities was positive for the first time. This compared to previous quarters when we had reported significant cash deficiencies.

Reporting positive net cash generation was a major milestone for the Company and an indication that we are on track to building a successful business. However, we need to continue to reduce the cost base and grow our revenues before we are consistently generating positive cash flow from operations. We believe that we are on track to achieve this before the end of this calendar year.

More than half of the Company's customers pay for their PocketMail service annually in advance. This has the effect of generating strong cash revenues but lagging accounting revenues as the Company defers revenue earned from such customers, and spreads it evenly over the following twelve month period.

At 30 June 2001, deferred revenue totalled \$1.1 million. More than 60% of this balance was attributable to US customers who subscribed for annual PocketMail service in the period 10 May 2001 to 30 June 2001. This balance will increase substantially in the coming fiscal year as we generate a full year of annual US subscription renewals.

## THE FUTURE

We believe that the worldwide demand for mobile e-mail and other mobile services will continue to grow. PocketMail is uniquely positioned to exploit this opportunity with an affordable, proven, easy-to-use mobile solution that works virtually anywhere in the world using virtually any phone.

PocketMail differs from many other mobile solutions in that it is not restricted by network coverage nor does it require significant investment in network infrastructure to deliver its service.

The opportunity for PocketMail is to roll out a global service offering under the "pocketmail.com" brand. The bringing together of all of the various worldwide PocketMail businesses under the one umbrella now makes this possible in an affordable and profitable way.

In the short term we need to build on what we already have, and better serve the communities and markets we operate in, before we embark down this path.

We continue to invest in developing our products and services, and will continue to announce further enhancements over coming months.

## OUR PEOPLE

We have a loyal and dedicated team working on both sides of the Pacific to bring our customers PocketMail. It has not been an easy year for them, as both our U.S. and Australian operations have undergone enormous change over the past 12 months.

Their ongoing dedication and commitment to the business is indicative of their belief in PocketMail both as a service and a business. I would like to thank them for their hard work and contribution this past year.

I would also like to extend my thanks to our suppliers, financiers and retail partners who have also worked with us to ensure that we have reached where we are now.

## SUMMARY

We have come a long way this year. We now have the platform from which to build a successful business and deliver value to our shareholders.

We thank you for your ongoing support, and trust that we can now deliver on the promise of better times to come.



David Marchant  
Chief Executive

# Directors' report

The directors present their report together with the financial report of PocketMail Group Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2001 and the auditor's report thereon.

## DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

### Name and qualifications

#### Neil Lewis

Chairman

Non-executive Director

Appointed 19 October 2000

#### David Marchant BA (Hons) Business Studies

Chief Executive Officer

#### Chris Coudounaris B Comm (Hons), LLB

Chairman of Audit Committee,  
Non Executive Director

#### Harold Graycar B Sc. B.E.

Executive Director

Resigned 15 May 2001

#### Neil Peretz B Sc. M. Sc. (USA)

Non Executive Director

Resigned 29 November 2000

#### Alan Phillips

Non Executive Director

Resigned 19 October 2000

### Experience and special responsibilities

Neil Lewis began his career in the financial services sector before founding and developing the Australian operations of Babcock & Brown Pty Limited into one of the most progressive specialist merchant banking firms. He was also the Founding Principal and Joint Managing Director of Meridian International Capital Limited - a highly regarded specialist merchant banking firm.

Neil is currently the Deputy Chairman of Impulse Airlines Limited, and provides business and financial structuring advice to the private and public sectors. He also consults to AMP Asset Management Australia Limited and Meridian International Capital Limited.

In addition, Neil is a director of Yuleba Resources Pty Limited, a Queensland based mining company, and Christian Broadcasting Association Limited.

Prior to his appointment as Chief Executive Officer of PocketMail Group Limited, David was CEO of United Customer Management Solutions ("UCMS"). David led UCMS through its evolution from a loss making start-up organisation to a highly profitable company recognized as a leader in customer management solutions within Australia.

Chris Coudounaris was formally a partner of the national law firm Gadens Lawyers, practising in the corporate and commercial division of the firm.

He is currently a director of the policy and advisory firm, Keating Associates, and a director of Lake Technology Limited, a digital signal processing company.

Harold has extensive experience in the information technology sector through his prior executive directorship of Online Telesystems Pty Limited, an IT consulting practice, and from over 20 years in the Information Technology and Telecommunications industries.

Neil is the co-founder and President of Pocket.com Inc (formerly PocketScience Inc) in USA, where he oversaw the initial development of the PocketMail mobile e-mail technology.

Alan has over 20 years experience as an executive director of exploration and mining companies. Since 1992, Alan has participated as Chairman or Executive Director in the turnaround of, or listing of, seven companies listed on the Australian Stock Exchange.

# Directors' report

## DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings		Audit Committee Meetings	
	A	B	A	B
Neil Lewis	11	12	-	1
Alan Phillips	5	5	2	2
David Marchant	16	16	-	-
Chris Coudounaris	16	16	3	3
Harold Graycar	13	15	-	-
Neil Peretz	-	6	-	-

**A** – Number of meetings attended      **B** – Number of meetings held during the time the director held office during the year

## PRINCIPAL ACTIVITIES

The principal activities of the entities within the consolidated entity were the:

- delivery of the PocketMail mobile e-mail service; and
- the sale and marketing of PocketMail mobile e-mail devices.

## REVIEW AND RESULTS OF OPERATIONS

The financial year was a period of significant change and growth for the Company.

The Company commenced the year as the exclusive licensee of the PocketMail technology in Australia and New Zealand, having launched its PocketMail service in Australia in March 2000.

During the course of the year the Company developed and grew its Australian business.

On 9 May 2001, the Company acquired the worldwide PocketMail business from privately held Pocket.com Inc ("PCI") of California.

At 30 June 2001, the Company had over 50,000 paying subscribers (30 June 2000: 3,000).

The consolidated loss of the consolidated entity for the year ended 30 June 2001 after provision for income tax was \$14,510,473 (30 June 2000: \$7,072,308).

The current year results reflect the losses incurred in establishing and developing the Australian business, the consolidated results of the worldwide PocketMail business in the period 10 May 2001 to 30 June 2001, and write-downs of \$6,209,046 associated with the establishment of the Australian business, the acquisition of PocketMail licences for Australia and New Zealand and revision of estimates of likely recoveries from residual mining assets.

## DIVIDENDS

No dividends were paid during the financial year, and the directors recommend that no dividend be paid in respect of the year ended 30 June 2001.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

As indicated in the Review and Results of Operations, in May 2001, the Company acquired the worldwide PocketMail business from privately held PCI of California.

As part of the consideration for the acquisition, the Company issued 18,000,000 new ordinary shares in the capital of PocketMail Group Limited and 6,000,000 options, each to subscribe for one new ordinary share in the capital of PocketMail Group Limited, exercisable at AUD\$0.10 per option and expiring at the close of business on 31 December 2002.

The acquisition increased the Company's subscriber base from around 6,500 to over 50,000 subscribers, gave the Company ownership of the PocketMail technology on a global basis and now provides the Company with an opportunity to build a global business.

The acquisition increased monthly cash collections, including those from annual plans, revenues from around \$200,000 per month to around \$1 million per month.

## EVENTS SUBSEQUENT TO BALANCE DATE

In July 2001 the Company entered into a loan agreement with its major shareholder Bindera Pty Limited ("Bindera"), for an amount of \$0.5 million. Interest is charged on this facility at 10% and the principal is repayable on 30 September 2002.

In September 2001, the Company entered into agreement with its lenders, Bindera and Lewis Family Investments Pty Limited, ("Lewis Family Investments") to roll-over loans totaling \$5.5 million and \$1.0 million respectively until September 2002.

## LIKELY DEVELOPMENTS

### Operational

In the next financial year, the Company expects to benefit from the consolidation of the operations of its newly acquired businesses through economies of scale and geographical cost variations to deliver cost-savings.

The Company is also focused on continuing to grow its subscriber base in its main markets of Australia and North America.

The Company is also seeking to establish PocketMail as a global service offering so that PocketMail can be profitably rolled-out into other countries.

### Financial

In July 2001, the Company released its Appendix 4C to the market showing that in the quarter ended 30 June 2001, net cash generated from operations was \$523,000. This compared to cash deficiencies in previous quarters.

The Company expects to generate positive cash from operations before the end of the calendar year. This can be achieved as the benefits of ongoing cost reductions and growth in cash revenues take effect.

## DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of the nature and amount of each major element of the emoluments of each director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest emoluments are:

	<i>Base emolument</i> \$	<i>Super contrib'ns</i> \$	<i>Options issued</i> \$	<i>Total</i> \$
<b>Director</b>				
<b>Non-executive</b>				
Neil Lewis	22,500	-	-	22,500
Chris Coudounaris	40,000	3,333	-	43,333
Neil Peretz	-	-	-	-
Allan Phillips	10,000	2,500	-	12,500
<b>Executive</b>				
David Marchant	242,933	8,416	-	251,349
Harold Graycar	180,333	21,016	-	201,349
<b>Executive officers (excluding directors)</b>				
David Shearer	177,037	24,312	-	201,349
David Skinner	192,933	8,416	-	201,349

# Directors' report

## OPTIONS

During or since the end of the financial year, the Company granted options over unissued ordinary shares to the following director as part of his remuneration:

<i>Directors</i>	<i>Number of options granted*</i>	<i>Exercise price</i>	<i>Expiry date</i>
Mr Neil Lewis	1,000,000	\$0.20	5 October 2005

\* These options have no value assigned to them when calculating the director's remuneration as based on current share price it is not probable they will be exercised. No options have been granted since the end of the financial year and no options were granted to other directors or executive officers of the Company as part of their remuneration.

At the date of this report unissued ordinary shares of the Company under option are:

<i>Expiry date</i>	<i>Exercise price</i>	<i>Number of shares</i>
31 December 2001	\$0.50	10,000,000
12 May 2002	\$0.40	3,000,000
20 December 2002	\$0.40	3,900,000
20 December 2002	\$0.50	3,900,000
31 December 2002	\$0.10	6,000,000
31 December 2002	\$0.60	10,000,000
31 December 2003	\$0.70	10,000,000
23 December 2004	\$0.40	3,775,000
2 May 2005	\$0.50	150,000
2 May 2005	\$0.60	450,000
12 May 2005	\$0.40	500,000
27 June 2005	\$0.13	300,000
8 August 2005	\$0.13	30,000
8 August 2005	\$0.40	75,000
5 October 2005	\$0.20	1,000,000
1 December 2005	\$0.13	165,000
1 December 2005	\$0.20	75,000
15 August 2006	\$0.05	150,000

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

## DIRECTORS' INTERESTS

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the consolidated entity and other related body corporates, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	<i>PocketMail Group Limited</i>	
	<i>Ordinary shares</i>	<i>Options over ordinary shares</i>
Mr Neil Lewis	-	1,000,000
Mr David Marchant	-	1,875,000

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

### *Indemnification*

The Company has agreed to indemnify all directors of the Company and all former directors, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has agreed to indemnify executive officers for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position in the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the year the Company has paid premiums in respect of a contract insuring all of the Directors of the Company against any liability incurred in their role as a director of the Company, except where:

- (a) the liability arises out of conduct involving a willful breach of duty; or
- (b) there has been a contravention of the Corporations Act 2001.

The policy prohibits disclosure of the nature of the liability insured and the amount of premium paid.

Dated at Sydney this 28th day of September 2001.

Signed in accordance with a resolution of the directors:



D K Marchant  
Chief Executive Officer

# Statements of financial performance

For the year ended 30 June 2001

	Note	Consolidated		The Company	
		2001 \$	2000 \$	2001 \$	2000 \$
Revenue from sale of goods	2	1,366,201	1,113,165	-	-
Revenue from provision of services	2	1,531,517	73,114	-	-
Other revenue from ordinary activities	2	266,905	232,485	100,611	90,030
<b>Total revenue</b>	2	<b>3,164,623</b>	<b>1,418,764</b>	<b>100,611</b>	<b>90,030</b>
Employee expenses		2,349,663	886,878	-	-
Advertising		841,569	2,952,243	-	-
Depreciation and amortisation expenses	3(b)	2,394,066	810,283	1,183	508
Borrowing costs	3(b)	439,585	46,442	-	-
COGS (including distribution)		2,214,766	1,227,352	-	-
Customer Service		507,635	185,830	-	-
Legal Fees		223,445	130,170	33,591	-
Travel		249,573	257,733	-	-
Telecommunications		789,379	117,613	-	-
Individually significant items	3(a)	6,209,046	851,853	13,224,686	8,700,674
Other expenses from ordinary activities		1,456,369	1,024,675	228,060	486,471
<b>Loss from ordinary activities before related income tax expense</b>		<b>(14,510,473)</b>	<b>(7,072,308)</b>	<b>(13,386,909)</b>	<b>(9,097,623)</b>
Income tax (expense)/benefit relating to ordinary activities	5(a)	-	-	-	-
<b>Loss from ordinary activities after related income tax expense</b>		<b>(14,510,473)</b>	<b>(7,072,308)</b>	<b>(13,386,909)</b>	<b>(9,097,623)</b>
<b>Net loss</b>	22	<b>(14,510,473)</b>	<b>(7,072,308)</b>	<b>(13,386,909)</b>	<b>(9,097,623)</b>
Basic earnings per share (cents)	6	(8.0)	(7.0)		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 12 to 42.

# Statements of financial position

As at 30 June 2001

	Note	Consolidated		The Company	
		2001 \$	2000 \$	2001 \$	2000 \$
<b>Current assets</b>					
Cash assets	8	656,586	483,686	15,389	15,389
Receivables	9	150,816	413,525	1,289	186
Inventories	10	149,295	580,255	-	-
Other	12	73,337	75,066	-	7,651
<b>Total current assets</b>		<b>1,030,034</b>	<b>1,552,532</b>	<b>16,678</b>	<b>23,226</b>
<b>Non-current assets</b>					
Receivables	9	-	800,000	-	800,000
Other financial assets	11	2,500	2,500	2,500	6,002,500
Property, plant and equipment	13	2,128,926	1,828,745	-	1,183
Intangible assets	14	3,231,093	6,992,281	-	-
Other	15	296,478	331,248	-	-
<b>Total non-current assets</b>		<b>5,658,997</b>	<b>9,954,774</b>	<b>2,500</b>	<b>6,803,683</b>
<b>Total assets</b>		<b>6,689,031</b>	<b>11,507,306</b>	<b>19,178</b>	<b>6,826,909</b>
<b>Current liabilities</b>					
Payables	16	3,785,784	1,344,720	-	8,822
Interest-bearing liabilities	17	957,429	535,897	-	-
Provisions	19	611,857	136,572	-	-
<b>Total current liabilities</b>		<b>5,355,070</b>	<b>2,017,189</b>	<b>-</b>	<b>8,822</b>
<b>Non-current liabilities</b>					
Interest-bearing liabilities	17	6,850,329	1,734,398	6,868,198	1,468,198
Provisions	19	1,929	1,000	-	-
<b>Total non-current liabilities</b>		<b>6,852,258</b>	<b>1,735,398</b>	<b>6,868,198</b>	<b>1,468,198</b>
<b>Total liabilities</b>		<b>12,207,328</b>	<b>3,752,587</b>	<b>6,868,198</b>	<b>1,477,020</b>
<b>Net assets</b>		<b>(5,518,297)</b>	<b>7,754,719</b>	<b>(6,849,020)</b>	<b>5,349,889</b>
<b>Equity</b>					
Contributed equity	20	15,582,145	14,394,145	15,582,145	14,394,145
Accumulated losses	22	(21,149,899)	(6,639,426)	(22,431,165)	(9,044,256)
Reserves	21	49,457	-	-	-
<b>Total equity</b>	24	<b>(5,518,297)</b>	<b>7,754,719</b>	<b>(6,849,020)</b>	<b>5,349,889</b>

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 12 and 42.

# Statements of cash flows

For the year ended 30 June 2001

	Note	Consolidated		The Company	
		2001 \$	2000 \$	2001 \$	2000 \$
<b>Cash flows from operating activities</b>					
Cash receipts in the course of operations		4,558,174	920,794	91,548	4,285
Cash payments in the course of operations		(7,484,451)	(8,915,297)	(270,473)	(516,767)
Dividends received		5,038	-	5,038	-
Interest received		11,321	126,660	-	50,745
Borrowing costs paid		(250,586)	(45,255)	-	(6,812)
Software development expenditure		(97,104)	(358,762)	-	-
Expenditure on mining interests		-	(231,853)	-	(231,853)
<b>Net cash provided by/(used in) operating activities</b>	29(b)	(3,257,608)	(8,503,713)	(173,887)	(700,402)
<b>Cash flows from investing activities</b>					
Proceeds on disposal of business assets		-	65,000	-	-
Payment for controlled entities (net of cash acquired)	29(b)	(1,194,355)	344,612	-	-
Advances to related parties		-	-	(5,236,686)	(8,206,007)
Payments for property, plant and equipment		(79,376)	(214,501)	-	-
Proceeds on disposal of non current assets		10,573	-	10,573	-
Payments for licences		(167,500)	-	-	-
<b>Net cash provided by/(used in) investing activities</b>		(1,430,658)	195,111	(5,226,113)	(8,206,007)
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares		-	7,298,138	-	7,635,438
Proceeds from borrowings:					
– Related parties		5,400,000	1,100,000	5,400,000	1,100,000
– Other		-	206,743	-	-
Repayment of borrowings		(206,743)	-	-	-
Finance lease payments		(381,563)	44	-	-
<b>Net cash provided by financing activities</b>		4,811,694	8,604,925	5,400,000	8,735,438

	<i>Consolidated</i>		<i>The Company</i>		
	<i>Note</i>	<i>2001</i> \$	<i>2000</i> \$	<i>2001</i> \$	<i>2000</i> \$
<b>Net increase/(decrease) in cash held</b>		123,426	296,323	-	(170,971)
<b>Cash at the beginning of the financial year</b>		483,686	187,363	15,389	186,360
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		49,474	-	-	-
<b>Cash at the end of the financial year</b>	29(a)	656,586	483,686	15,389	15,389

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 12 and 42.

# Notes to the financial statements

## For the year ended 30 June 2001

### Statement of significant accounting policies

The significant policies which have been adopted in the preparation of this financial report are:

#### (a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act, 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

#### (b) Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The consolidated entity incurred an operating loss of \$14,510,473 (2000: \$7,072,308) during the year ended 30 June 2001 including individually significant items of \$6,209,046 (2000: \$851,853).

The directors nevertheless believe that it is appropriate to prepare the financial statements on a going concern basis for the following reasons:

- On 9 May 2001, the Consolidated entity acquired the world-wide PocketMail business from PCI in the US.

The acquisition increased the Company's subscriber base from around 6,500 to over 50,000 subscribers, and increased monthly cash collections, including collections from annual plans from around \$200,000 per month to around \$1 million per month.

The consolidated entity's ability to generate positive net cash-flow in the year ending 30 June 2002, as contemplated in its business plan, is dependent on a number of factors, including conversion of a substantial portion of existing debt to equity, net growth in subscriber base over the next financial year of approximately 25%, delivery of planned overhead cost reductions, continuing support of certain suppliers and financiers in relation to extended payment terms, utilisation of flexible working capital solutions to fund growth of product sales to retail and other channels and raising of additional capital in the next quarter.

The Directors have, over the course of the financial year, made significant changes to the consolidated entity's business plan and have implemented significant operational changes, including overhead cost reductions, to enable the consolidated entity to become cash flow positive.

- At 30 June 2001, the Company has unsecured loan facilities of \$6.5 million comprising \$5.5 million from its major shareholder Bindera and \$1.0 million from a director related entity of Neil Lewis, Lewis Family Investments. As at 30 June 2001, these facilities had been fully drawn down.

Subsequent to year end, a further \$0.5 million facility has been established between the Company and Bindera, repayable on 30 September 2002.

In September 2001 the Company entered into agreement with its lenders, Bindera and Lewis Family Investments, to roll-over loans totaling \$5.5 million and \$1.0 million respectively until September 2002.

Based on facilities available, the conversion of existing debt to equity, and provided the Company operates to its business plan, including the raising of additional capital in the next quarter, the Directors believe that the Company will have adequate working capital through the next financial year.

In the event that the Company does not meet its planned revenue and cash flow targets or successfully implement its revised business plan in the year ending 30 June 2002, the Company may not be able to realise its assets and extinguish its liabilities (including contingent liabilities) in the normal course of business at the amount stated in the financial report. Accordingly, the going concern basis used in the preparation of the financial report would not be appropriate and the consolidated entity may not be able to realize the carrying value of intangibles and associated plant and equipment in the normal course of business or alternatively from sale.

(c) **Reclassification of financial information**

Some line items and sub-totals reported in the previous financial year have been reclassified and repositioned in the financial statements as a result of the first time application on 1 July 2000 of the revised standards AASB 1018 Statement of Financial Performance, AASB 1034 Financial Report Presentation and Disclosures and the new AASB 1040 Statement of Financial Position.

Adoption of these standards has resulted in the transfer of the reconciliation of opening to closing accumulated losses from the face of the statement of financial performance to Note 22. Revenue and expense items previously disclosed as abnormal have been reclassified and are now disclosed as individually significant items in Note 3(a). These items are no longer identified separately on the face of the statement of financial performance.

(d) **Principles of Consolidation**

**Controlled entities**

The financial statements of controlled entities are included from the date control commences until the date control ceases.

**Transactions eliminated on consolidation**

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

(e) **Revenue recognition – Note 2**

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

**Sale of goods**

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

**Subscription revenue**

Revenue from 12 month subscriptions is recognised in the period which the service is provided to the customer, having regard to the stage of completion of the contract.

**Interest revenue**

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

**Sale of non-current assets**

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

**Grants**

Where a grant is received relating to costs that have been expensed, the grant is recognised as revenue

# Notes to the financial statements

## (f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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

## (g) Foreign currency

### Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

### Translation of controlled foreign entities

The assets and liabilities of foreign operations are translated at the rates of exchange ruling at balance date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

### Hedges

The consolidated entity does not hedge when dealing in foreign currency.

## (h) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than twelve months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

## (i) Taxation – Note 5

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

## (j) **Acquisitions of assets**

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognized directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the company if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Borrowing costs are capitalised to qualifying assets.

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

### **Deferred software development costs**

Expenditure on product related software development costs is capitalised as incurred. The cost is amortised over the period in which the related benefits are expected to be realised. The carrying amount of deferred software costs are reviewed at the end of each accounting period. Where the balance exceeds the value of expected future benefits the difference is recorded as an expense in the net profit or loss in the reporting period in which it occurs.

### **Research and development costs**

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred.

### **Subsequent additional costs**

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years.

Costs that do not meet the criteria for capitalisation are expensed as incurred.

## (k) **Revisions of accounting estimates**

Revisions to accounting estimates are recognised prospectively in current and future periods only.

## (l) **Receivables – Note 9**

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

### **Trade debtors**

Trade debtors to be settled within 60 days are carried at amounts due.

## (m) **Inventories – Note 10**

Inventories are carried at the lower of cost and net realisable value.

### **Net realisable value**

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

## (n) **Investments – Note 11**

### **Controlled entities**

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

### **Other entities**

Investments in other unlisted entities are carried at the lower of cost and recoverable amount.

# Notes to the financial statements

## (o) **Leased assets**

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

### **Finance leases**

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred. Also refer to Note 17.

### **Operating leases**

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

## (p) **Goodwill – Note 14**

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired.

## (q) **Recoverable amount of non-current assets valued on cost basis**

The carrying amounts of non-current assets valued on the cost basis, are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

## (r) **Depreciation and amortisation**

### **Complex assets**

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

### **Useful lives**

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives, with the exception of finance lease assets which are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed.

The depreciation/amortisation rates used for each class of asset during the current and prior year are as follows:

Plant and equipment	3 – 5 years
Leasehold improvements	The lease term (3 years)
Leased plant and equipment	The lease term (3 years)
Software development costs	3 – 5 years
Intangibles	3 – 5 years

(s) **Payables – Note 16**

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

(t) **Employee entitlements – Note 30**

**Wages, salaries and annual leave**

The provisions for employee entitlements to wages, salaries and annual leave represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on current wage and salary rates including related on-costs.

**Employee share and option plans**

The value of the employee share scheme is not being charged as an employee entitlement expense.

**Long Service Leave**

The provision for employee entitlements to long service leave represents the present value of estimated future cash outflows made resulting from employees' services provided up to balance date.

**Superannuation plans**

The Company and other controlled entities contribute to several superannuation funds on behalf of their employees. In Australia, the consolidated entity contributes 8% of an employees salary as required by law. In the US, employees elect for the consolidated entity to make payments on their behalf. Contributions are charged against income as they are made.

(u) **Provisions**

A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

**Restructuring**

A provision for restructuring on acquisition is only recognised at the date of acquisition where there is a demonstrable commitment and a detailed plan such that there is little or no discretion to avoid payments to other parties and the amount can be reliably estimated.

The provision relates only to costs associated with the acquired entity.

Other provisions for restructuring are only recognised when a detailed plan has been approved and the restructuring has either commenced or been publicly announced. Costs related to ongoing activities are not provided for.

**Deferred rent**

The consolidated entity has a three year lease in relation to its office premises. Under the terms of the lease agreement, the consolidated entity is not required to pay rentals until commencement of year three of the lease. During the rent free period, the consolidated entity has accrued a liability on the basis of total rent payable under the agreement.

(v) **Change in accounting policy**

The consolidated entity has adopted AASB 1041 Revaluation of Non Current Assets effective 1 July 2000.

The consolidated entity has continued to apply the cost basis for all non current assets such as receivables, plant & equipment and intangibles.

The change in accounting policy has no financial effect in the current or prior period.

# Notes to the financial statements

2 Revenue from ordinary activities	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
Sale of goods revenue from operating activities	1,366,201	1,113,165	-	-
Provision of services revenue from operating activities	1,531,517	73,114	-	-
<b>Other revenues:</b>				
<i>From operating activities</i>				
Dividends:				
– Other parties	5,038	-	5,038	-
Interest:				
– Other parties	11,321	126,660	-	50,745
<i>From outside operating activities</i>				
– Gross proceeds from sale of non-current assets	-	65,000	-	-
– Gross proceeds from sale of shares	10,573	-	10,573	-
– Grants received	93,194	-	-	-
– Recovery of contingent asset	85,000	-	85,000	-
– Other	61,780	40,825	-	39,285
Total other revenues	266,905	232,485	100,611	90,030
<b>Total revenue from ordinary activities</b>	<b>3,164,623</b>	<b>1,418,764</b>	<b>100,611</b>	<b>90,030</b>

3	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
<b>Loss from ordinary activities before income tax expense</b>				
<b>a) Individually significant items included in loss from ordinary activities before income tax expense</b>				
Write off investment in subsidiary	-	-	6,000,000	-
Provision for non recovery of inter-company loans	-	-	6,424,686	8,205,821
Write off of mining royalty receivable	800,000	-	800,000	-
Exploration expenditure written off	-	405,853	-	405,853
Mining contract termination fee	-	89,000	-	89,000
Provision for inventory obsolescence	-	422,000	-	-
Profit on disposal of controlled entity	-	(65,000)	-	-
Write off of goodwill – PocketMail Pty Limited acquisition	1,144,085	-	-	-
Write off of licence – Australia & NZ	4,097,461	-	-	-
Write off of licence – Asia	167,500	-	-	-
	6,209,046	851,853	13,224,686	8,700,674
<b>b) Loss from ordinary activities before income tax expense has been arrived at after charging/ (crediting) the following items:</b>				
<i>Depreciation of:</i>				
– plant and equipment	218,678	65,402	1,183	508
<i>Amortisation of:</i>				
– deferred software development expenditure	131,874	27,514	-	-
– goodwill	486,783	162,180	-	-
– other intangibles	1,117,500	372,500	-	-
– leased plant and equipment	371,407	148,412	-	-
– leasehold improvements	67,824	34,275	-	-
	2,175,388	744,881	-	-
Total depreciation and amortisation	2,394,066	810,283	1,183	508

# Notes to the financial statements

## Note 3 Loss from ordinary activities before income tax expense (Cont..)

	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
<i>Borrowing costs:</i>				
Interest expense				
– related parties	386,173	9,041	-	-
– finance charges on capitalised leases	53,412	37,401	-	-
Total borrowing costs	439,585	46,442	-	-
Net bad and doubtful debts expense including movements in provision for doubtful debts	146,099	25,537	-	-
<i>Net expense from movements in provision for:</i>				
– employee entitlements	55,448	45,927	-	-
– reseller subsidies	138,246	-	-	-
– other	69,755	-	69,755	-
	263,449	45,927	69,755	-
<i>Operating lease rental expense:</i>				
– minimum lease payments	8,340	6,041	-	-
<i>Net (gain)/loss on disposal of non-current assets:</i>				
– shares	(10,573)	-	(10,573)	-

4 Auditors' remuneration	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
<i>Audit services:</i>				
– Auditors of the Company – KPMG	59,000	34,000	-	11,000
– Prior year audit – additional fees	19,207	-	-	-
	78,207	34,000	-	11,000
<i>Other services:</i>				
– Auditors of the Company – KPMG	14,495	22,630	14,495	77,630
– KPMG related practices	-	55,000	-	-
	14,495	77,630	14,495	77,630

5 Taxation	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
<b>(a) Income tax expense</b>				
Prima facie income tax expense calculated at 34% (2000: 36%) on the loss from ordinary activities	(4,933,561)	(2,546,031)	(4,551,549)	(3,275,144)
Increase in income tax expense due to:				
– Amortisation of goodwill	165,506	192,485	-	-
– Write off of goodwill	389,989	-	-	-
– Amortisation of other intangible assets	379,950	-	-	-
– Write off of other intangible assets	1,450,087	-	-	-
– Asset write downs	272,000	94,680	2,312,000	94,680
– Write down of inter-company loans	-	-	2,184,393	2,954,096
– Sundry items	-	1,798	-	-
Income tax benefit attributable to operating loss	(2,276,029)	(2,257,068)	(55,156)	(226,368)
Add FITB not brought to account	2,276,029	2,257,068	55,156	226,368
Income tax expense attributable to operating loss	-	-	-	-

### (b) Future income tax benefit not taken to account

The potential future income tax benefit in a controlled entity, which is a company, arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:

	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
Tax losses carried forward	4,761,028	2,484,999	355,612	300,456

The potential future income tax benefit will only be obtained if:

- (i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- (ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

# Notes to the financial statements

## Consolidated

6 Basic Earnings/(Loss) per share	2001 \$	2000 \$
Basic earnings/(loss) per share (dollars per share)	(0.08)	(0.07)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	186,858,121	93,803,667

Diluted loss per share is not disclosed. At 30 June 2001 it was probable that the options would not be exercised and the share capital diluted.

7 Segment Information	Service Provision		Mining		Consolidated	
	2001 \$	2000 \$	2001 \$	2000 \$	2001 \$	2000 \$
<b>Industry segments</b>						
Revenue outside the consolidated entity	3,079,623	1,186,279	-	-	3,079,623	1,186,279
Other	-	132,485	85,000	100,000	85,000	232,485
<b>Total revenue</b>	<b>3,079,623</b>	<b>1,318,764</b>	<b>85,000</b>	<b>100,000</b>	<b>3,164,623</b>	<b>1,418,764</b>
Segment operating profit (loss)	(14,595,473)	(6,677,455)	85,000	(394,853)	(14,510,473)	(7,072,308)
Segment assets	6,689,031	10,707,306	-	800,000	6,689,031	11,507,306
<b>Total segment assets</b>	<b>6,689,031</b>	<b>10,707,306</b>	<b>-</b>	<b>800,000</b>	<b>6,689,031</b>	<b>11,507,306</b>

## Geographical segments

During the year ended 30 June 2001, the consolidated entity operated predominantly in Australia. On 9 May 2001 the Company acquired the business of Pocket.com Inc which has operations in both the US and the UK. (see Note 28 for details) 24% of consolidated revenue was generated from this new operation in the 51 days to 30 June 2001. This geographical segment also contributed 7 % to consolidated operating loss and total assets of 32% totalling \$2,125,626.

8 Cash assets	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
Cash	656,586	483,686	15,389	15,389

9 Receivables	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
<b>Current</b>				
Trade debtors	130,644	420,266	-	-
Less: Provision for doubtful trade debtors	(65,000)	(20,000)	-	-
	65,644	400,266	-	-
Other debtors	85,172	1,187	1,289	186
Loans to controlled entities	-	-	14,630,506	8,205,821
Less: Provision for non recovery	-	-	(14,630,506)	(8,205,821)
Other	-	12,072	-	-
	150,816	413,525	1,289	186
<b>Non-current</b>				
Royalties Receivable (a)	-	800,000	-	800,000

- (a) During the year ended 30 June 2000, the Company entered into an agreement to sell 100% of its interest in a gold mining joint venture. The consideration received was the right to receive a royalty stream of up to \$900,000 arising from any subsequent production out of the mining venture. Based on discounted estimated future cash flows associated with this transaction, the Directors estimated the fair value of this receivable as at 30 June 2000 to be \$800,000.

To date, mining has not commenced due to a dispute between the mining company and local plantation owners. Since the Directors are unable to ascertain when and if mining might commence, and consequently when and if the royalty payment might be received, the Directors have written off in the period the royalties receivable. Recovery of this asset might be achieved at a future point in time.

Any future income received from this asset will be credited to the statement of financial performance at the time it is received.

Further details of loans to controlled entities are also set out in Note 33(a).

# Notes to the financial statements

10 Inventories	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
<b>Current</b>				
Finished goods at cost	228,845	1,002,255	-	-
Less: Provision	(79,550)	(422,000)	-	-
<b>Total inventories at realisable value</b>	149,295	580,255	-	-

11 Other financial assets	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
<b>Non-current</b>				
Investments in other entities				
Unlisted shares at cost	22,500	22,500	22,500	22,500
Less: Provision for diminution in value	(20,000)	(20,000)	(20,000)	(20,000)
	2,500	2,500	2,500	2,500
Investments in controlled entities				
Unlisted shares at cost	-	-	36,730,033	36,730,033
Less: Provision for diminution in value (a)	-	-	(36,730,033)	(30,730,033)
	-	-	-	6,000,000
Investments at cost - total	22,500	22,500	36,752,533	36,752,533
Investments at recoverable amount	2,500	2,500	2,500	6,002,500
<b>Total investments</b>	2,500	2,500	2,500	6,002,500

- (a) The movement in the provision for diminution in value of investments in controlled entities is consistent with the decision of the Directors of the Company to write off the balance of goodwill on the purchase of PocketMail Pty Limited and the carrying value of the licences as detailed in Note 14.

12 Other current assets	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
Prepayments	73,337	75,066	-	7,651

	<b>Consolidated</b>		<b>The Company</b>	
<b>13 Property, plant and equipment</b>	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Leasehold improvements</b>				
<i>At cost</i>	339,118	339,118	-	-
<i>Accumulated amortisation</i>	(118,006)	(50,182)	-	-
	221,112	288,936	-	-
<b>Plant and equipment</b>				
<i>At cost</i>	992,090	707,362	3,042	3,042
<i>Accumulated amortisation</i>	(325,859)	(107,182)	(3,042)	(1,859)
	666,231	600,180	-	1,183
<b>Leased plant and equipment</b>				
<i>At capitalised cost</i>	1,807,650	1,134,289	-	-
<i>Accumulated amortisation</i>	(566,067)	(194,660)	-	-
	1,241,583	939,629	-	-
Total property, plant and equipment - Net book value	2,128,926	1,828,745	-	1,183
Refer to Note 17 for details of security over property, plant and equipment.				
<b>Reconciliations</b>				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
<b>Leasehold improvements</b>				
Carrying amount at beginning of year	288,936	-	-	-
Additions	-	339,118	-	-
Amortisation	(67,824)	(50,182)	-	-
Carrying amount at end of year	221,112	288,936	-	-
<b>Plant and equipment</b>				
Carrying amount at beginning of year	600,180	1,691	1,183	1,691
Additions	284,728	707,362	-	-
Acquisition through entity acquired	-	-	-	-
Depreciation	(218,677)	(108,873)	(1,183)	(508)
Carrying amount at end of year	666,231	600,180	-	1,183
<b>Leased plant and equipment</b>				
Carrying amount at beginning of year	939,629	-	-	-
Additions	673,361	1,134,289	-	-
Amortisation	(371,407)	(194,660)	-	-
Carrying amount at end of year	1,241,583	939,629	-	-

# Notes to the financial statements

14 Intangibles	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
Goodwill – at cost	5,024,141	1,939,500	-	-
Accumulated amortisation	(648,963)	(162,180)	-	-
	4,375,178	1,777,320	-	-
Write down of goodwill	(1,144,085)	-	-	-
Carrying amount at end of year	3,231,093	1,777,320	-	-
Licence – at cost	5,754,961	5,587,461	-	-
Accumulated amortisation	(1,490,000)	(372,500)	-	-
	4,264,961	5,214,961	-	-
Write down of Licence	(4,264,961)	-	-	-
Carrying amount at year end	-	5,214,961	-	-
Carrying amount of intangibles at year end	3,231,093	6,992,281	-	-

Goodwill comprises \$1,621,800 arising on the acquisition of PocketMail Pty Limited, (PMP) \$317,700 arising on the acquisition of the business of Online Telesystems Pty Limited and \$3,084,641 arising on the acquisition of the business of Pocket.com Inc. Refer Note 28 for details of these acquisitions.

The balance of goodwill arising from the acquisition of PMP at \$1,144,085 and the carrying amount of licences for PocketMail technology in Australia and New Zealand at \$4,262,961 have been fully expensed in the year ended 30 June 2001 as in the opinion of the Directors, the future benefits are no longer probable. Refer Note 3 for details.

15 Other non-current assets	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
Deferred software development costs:				
Balance at beginning of year	331,248	-	-	-
Software development costs incurred during the year and deferred	97,104	358,762	-	-
Accumulated amortisation	(131,874)	(27,514)	-	-
	296,478	331,248	-	-

16 Payables	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
Trade creditors	1,393,167	464,729	-	8,822
Deferred subscriber revenue	1,153,836	139,161	-	-
Other creditors and accruals	1,238,781	740,830	-	-
	3,785,784	1,344,720	-	8,822

17 Interest bearing liabilities	Note	Consolidated		The Company	
		2001 \$	2000 \$	2001 \$	2000 \$
<b>Current</b>					
Debtor finance facility		-	206,743	-	-
Lease liabilities	26	957,429	329,154	-	-
		957,429	535,897	-	-
<b>Non-current</b>					
Other loans – controlled entities		-	-	368,198	368,198
– related parties	33	6,500,000	1,100,000	6,500,000	1,100,000
Lease liabilities	26	350,329	634,398	-	-
		6,850,329	1,734,398	6,868,198	1,468,198
<b>Financing arrangements</b>					
The consolidated entity has access to the following lines of credit:					
<i>Total facilities available:</i>					
Related party loans		6,500,000	3,000,000	6,500,000	3,000,000
Standby letters of credit		350,000	950,000	-	-
Debtor finance facility		-	1,500,000	-	-
Lease facility		1,307,758	1,500,000	-	-
		8,157,758	6,950,000	6,500,000	3,000,000
<i>Facilities utilised at balance date:</i>					
Related party loans		6,500,000	1,100,000	6,500,000	1,100,000
Standby letters of credit		323,590	-	-	-
Debtor finance facility		-	206,743	-	-
Lease facility		1,307,758	963,552	-	-
		8,131,348	2,270,295	6,500,000	1,100,000

# Notes to the financial statements

## Note 17 Interest bearing liabilities (Cont...)

	Note	Consolidated		The Company	
		2001 \$	2000 \$	2001 \$	2000 \$
<i>Facilities not utilised at balance date:</i>					
Related party loans		-	1,900,000	-	1,900,000
Standby letters of credit		26,410	950,000	-	-
Debtor finance facility		-	1,293,257	-	-
Lease facility		-	536,448	-	-
		26,410	4,679,705	-	1,900,000

### Standby letter of credit

A Standby letter of credit facility amounting to A\$350,000 is available to be drawn down until 30 September 2001. This is currently being renewed.

### Finance Leases

Finance leases have an average lease term of 3 years. An option to purchase the asset at the completion of the lease term at a residual of up to 10% is available. The average discount rate implicit in the leases is 8% (2000: 8%). Lease liabilities are secured in Australia by a first mortgage over the assets of PocketMail Australia Pty Limited.

### Related Party Loans

\$5.5 million of the related party loans are repayable on 30 September 2002. The remaining \$1.0 million is repayable on 1 September 2002. Interest is charged on these loans at 10% per annum on a monthly basis. The loans are unsecured. Refer Note 34 Subsequent events for details of refinancing of loans.

18 Amounts payable/receivable in foreign currencies	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
The Australian dollar equivalents of unhedged amounts payable or receivable in foreign currencies, calculated at year-end exchange rates, are as follows:				
<b>United States dollars</b>				
<i>Amounts payable:</i>				
Current	1,022,328	44,927	-	-
Non-current	72,623	1,000	-	-
	1,094,951	45,927	-	-
<i>Amounts receivable:</i>				
Current	9,598	-	-	-
<b>Great British Pounds</b>				
<i>Amounts payable:</i>				
Current	102,396	-	-	-
<b>Singapore Dollars</b>				
<i>Amounts payable:</i>				
Current	8,822	-	-	-

19 Provisions	Note	Consolidated		The Company	
		2001 \$	2000 \$	2001 \$	2000 \$
<b>Current</b>					
Employee entitlements	30	99,446	44,927	-	-
Restructuring		197,083	-	-	-
Deferred rent		158,500	63,400	-	-
Other		156,828	28,245	-	-
		611,857	136,572	-	-
<b>Non-current</b>					
Employee entitlements	30	1,929	1,000	-	-
		1,929	1,000	-	-

# Notes to the financial statements

20 Contributed equity	Note	Consolidated		The Company	
		2001 \$	2000 \$	2001 \$	2000 \$
<b>Issued and paid-up share capital</b>					
186,858,121 (2000: 168,858,121) ordinary shares, fully paid		15,582,145	14,394,145	15,582,145	14,394,145
<b>Ordinary shares</b>					
Balance at the beginning of year		14,394,145	60,728,651	14,394,145	60,728,651
<b>Shares issued:</b>					
- 18,000,000 (2000: Nil) as part consideration for the acquisition of the business of Pocket.Com Inc		1,188,000	-	1,188,000	-
- Initial public offering 20,125,000 ordinary shares at 40 cents		-	8,050,000	-	8,050,000
- Purchase of the business of Ontel		-	337,500	-	337,500
- 118,000,000 shares issued to acquire 100% of PocketMail Pty Limited		-	6,000,000	-	6,000,000
- Capital raising expenses		-	(877,398)	-	(877,398)
<b>Options exercised:</b>					
- 167 at 20 cents		-	33	-	33
- 26873 at \$1.00 (net of transaction costs of \$136)		-	26,737	-	26,737
-15,000 at 40 cents		-	6,000	-	6,000
<b>Placements:</b>					
- 20,000,000 ordinary shares		-	735,880	-	735,880
Movements for the year	24	1,188,000	14,278,752	1,188,000	14,278,752
<b>Capital reconstruction:</b>					
- offset against retained losses		-	(60,613,258)	-	(60,613,258)
Balance at end of year		15,582,145	14,394,145	15,582,145	14,394,145

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

<b>21 Reserves</b>	<b>Consolidated</b>		<b>The Company</b>	
	<b>2001</b> \$	<b>2000</b> \$	<b>2001</b> \$	<b>2000</b> \$
Foreign currency translation	49,457	-	-	-
<b>Movements during the year</b>				
Balance at beginning of year	-	-	-	-
Net translation adjustment	49,457	-	-	-
Balance at end of year	49,457	-	-	-

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations. Refer to accounting policy note 1(g).

<b>22 Accumulated losses</b>	<b>Consolidated</b>		<b>The Company</b>	
	<b>2001</b> \$	<b>2000</b> \$	<b>2001</b> \$	<b>2000</b> \$
Accumulated losses at beginning of year	(6,639,426)	(60,180,376)	(9,044,256)	60,559,891
Net loss	(14,510,473)	(7,072,308)	(13,386,909)	(9,097,623)
Reduction on capital reconstruction	-	60,613,258	-	(60,613,258)
Accumulated losses at the end of the year	(21,149,899)	(6,639,426)	(22,431,165)	(9,044,256)

## 23 Dividends

The Directors do not recommend a dividend for the year ended 30 June 2001. No dividend was paid for the year ended 30 June 2000.

# Notes to the financial statements

24 Total equity reconciliation	Note	Consolidated		The Company	
		2001 \$	2000 \$	2001 \$	2000 \$
Total equity at beginning of year		7,754,719	548,275	5,349,889	168,760
Total changes in equity recognised in statement of financial performance		(14,510,473)	(7,072,308)	(13,386,909)	(9,097,623)
Reserves		49,457	-	-	-
Transactions with owners as owners:					
– Contributions of equity	20	1,188,000	14,278,752	1,188,000	14,278,752
Total equity at end of year		(5,518,297)	7,754,719	(6,849,020)	5,349,889

## 25 Additional financial instruments

### (a) Interest rate risk

The consolidated entity is exposed to interest rate fluctuations.

#### Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

Fixed interest maturing in:								
	Note	Weight average interest rate	Floating interest rate	1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total
<b>2001</b>								
<b>Financial assets</b>								
Cash assets	8	3.9%	656,586	-	-	-	-	656,586
Receivables	9	-	-	-	-	-	150,816	150,816
Investments	11	-	-	-	-	-	2,500	2,500
			656,586	-	-	-	153,316	809,902
<b>Financial liabilities</b>								
Payables	16	-	-	-	-	-	2,631,949	2,631,949
Deferred subscriber revenue	16	-	-	-	-	-	1,153,836	1,153,836
Lease liabilities	17	8.05%	-	957,429	350,329	-	-	1,307,758
Related party loans	17	10.0%	-	-	6,500,000	-	-	6,500,000
Employee entitlements	19	5.1%	-	-	-	1,929	99,446	101,375
			-	957,429	6,850,329	1,929	3,885,231	11,694,918

<b>Fixed interest maturing in:</b>								
	<b>Note</b>	<b>Weight average interest rate</b>	<b>Floating interest rate</b>	<b>1 year or less</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>2000</b>								
<b>Financial assets</b>								
Cash assets	8	4.5%	483,686	-	-	-	-	483,686
Receivables	9	-	-	-	-	-	400,266	400,266
Receivables-related parties	9	-	-	-	-	-	12,072	12,072
Unlisted Shares	11	-	-	-	-	-	2,500	2,500
Receivables - Other	9	-	-	-	-	-	801,187	801,187
			483,686	-	-	-	1,216,025	1,699,711
<b>Financial liabilities</b>								
Payables	16	-	-	-	-	-	1,205,559	1,205,559
Deferred Subscriber Revenue	16	-	-	-	-	-	139,161	139,161
Bank Loans	17	11.45%	206,743	-	-	-	-	206,743
Related Party loans	17	10.0%	-	-	1,100,000	-	-	1,100,000
Lease liabilities	17	8.2%	-	329,154	634,398	-	-	963,552
Employee entitlements	19	6.8%	-	-	-	1,000	44,927	45,927
			206,743	329,154	1,734,398	1,000	1,389,647	3,660,942

## (b) **Net fair values of financial assets and liabilities**

### **Valuation approach**

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows. The carrying amounts of bank term deposits, trade debtors, term debtors, other debtors, bank overdrafts, accounts payable, bank loans, lease liabilities and employee entitlements approximate net fair value.

# Notes to the financial statements

## Note 25 Additional financial instruments disclosure (Cont...)

The net fair value of investments in unlisted shares in other corporations and interests in partnerships is determined by reference to the underlying net assets and an assessment of future maintainable earnings and cash flows of the respective corporations.

### Net fair values

The balances of financial assets and liabilities have been stated at their net fair value.

### (c) Foreign exchange risk exposures

The consolidated entity is exposed to foreign currency fluctuations. The consolidated entity does not hedge when dealing in foreign currency.

### (d) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

#### Recognised financial instruments

The credit risk on financial assets, excluding investments, of the consolidated entity which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties in various countries and by performing extensive due diligence procedures on major new customers.

26 Commitments	Note	Consolidated		The Company	
		2001 \$	2000 \$	2001 \$	2000 \$
Non-cancellable operating lease expense commitments					
<i>Future operating lease commitments not provided for in the financial statements and payable:</i>					
Within one year		99,540	9,276	-	-
One year or later and no later than five years		58,110	157,650	-	-
Later than five years		-	-	-	-
		157,650	166,926	-	-

- Operating lease commitments relate largely to future payments for the rental of premises under a 3-year lease with the option to renew after 2 years. Under the terms of the lease agreement, the Company is not required to pay rentals until the commencement of year 3 of the lease. Rental amounts are subject to annual reviews based on prevailing market rates and an escalation rate of 5% pa applies to rentals in the renewal period.

Finance lease payment commitments	Note	Consolidated		The Company	
		2001 \$	2000 \$	2001 \$	2000 \$
<i>Finance lease commitments are payable:</i>					
Within one year		1,045,184	395,292	-	-
One year or later and no later than five years		341,668	681,720	-	-
		1,386,852	1,077,012	-	-
Less: Future lease finance charges		(79,094)	(113,460)	-	-
		1,307,758	963,552	-	-
<i>Lease liabilities provided for in the financial statements:</i>					
Current	17	957,429	329,154	-	-
Non-current	17	350,329	634,398	-	-
Total lease liability		1,307,758	963,552	-	-

- The finance lease commitment represents network operations equipment acquired under a 3-year hire purchase agreement for use in Australia. At the end of the lease term the consolidated entity has the option to purchase the equipment at a residual value of 10% of the fair value of the goods under the hire purchase. The leased payments are fixed amounts with no incremental contingent rental.
- Another finance lease contract was assumed as part of the acquisition of the business of Pocket.com Inc. This is for the purchase of network operations equipment currently used in the US and UK. The lease payments are fixed and no residual balance is payable on completion.

Other operating expenditure commitments	Note	Consolidated		The Company	
		2001 \$	2000 \$	2001 \$	2000 \$
<i>Committed but not provided for and payable:</i>					
Within one year		1,379,582	-	-	-
One year or later and no later than five years		-	-	-	-
Later than five years		-	-	-	-
		1,379,582	-	-	-

# Notes to the financial statements

## 27 Contingent liabilities

The company has no contingent liabilities.

## 28 Controlled entities

### a) Particulars in relation to controlled entities

Ordinary Share Consolidated Entity interest		
Name	2001 %	2000 %
PocketMail Group Limited		
<b>Controlled entities</b>		
PocketMail Pty Ltd	100	100
PocketMail Australia Pty Ltd	100	100
PocketMail New Zealand Pty Ltd	100	100
PocketMail Inc (USA)	100	-
Target Resources Ltd	100	100
Target Resources Australia NL	100	100
Mt Pleasant Mill Operations Pty Ltd	100	100
Gemiris Pty Ltd	100	100
Gold Dust Holdings Pty Ltd	100	100
PocketMail Singapore Pte	100	-
PocketMail Hong Kong Pty Limited	100	-

### (b) Acquisition of controlled entities

During the year the consolidated entity incorporated 3 new companies, PocketMail Hong Kong was incorporated on 28 August 2000 in Hong Kong, PocketMail Singapore Pte Limited was incorporated in Singapore on 27 October 2000 and PocketMail Inc was incorporated in the United States on 8 February 2001. Each of these 3 companies is 100% owned by PocketMail Group Limited.

On 9 May 2001, the consolidated entity purchased the business of Pocket.Com Inc. This company operates under the newly incorporated entity named PocketMail Inc. Cash consideration of US\$618,521 and 18 million shares in PocketMail Group Limited (valued at US\$615,229 based on share price and exchange rate on 9 May) was paid for the business. In addition to this consideration, 6 million options in the Company were issued exercisable at 10 cents and expiring on 31 December 2002. No value has been placed on these options as current share price is lower than strike price of the options and it is not considered probable that they will be exercised.

The transaction resulted in goodwill of US \$1,565,648. This amount is being amortised over five years. The purchase has been translated to Australian dollars at the spot rate on the date of acquisition. The 2000 comparative information relates to the 100% acquisition of PMP and its subsidiaries on 10 January 2000. Details are as follows:

Consideration	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
Cash	1,194,355	-	1,194,355	-
Shares	1,188,000	6,000,000	1,188,000	6,000,000
Less cash acquired	-	(344,612)	-	(344,612)
<b>Total Consideration</b>	<b>2,382,355</b>	<b>5,655,388</b>	<b>2,382,355</b>	<b>5,655,388</b>
<b>Fair value of the net assets of entity acquired:</b>				
Property, Plant & Equipment	879,880	1,840,842	879,880	1,840,842
Trade Debtors (at net realisable value)	193,099	12,939	193,099	12,939
License	-	5,587,461	-	5,587,461
Inventory	966	-	966	-
Trade Creditors	-	(2,430,396)	-	(2,430,396)
Lease Liabilities	(725,769)	(963,508)	(725,769)	(963,508)
Provision for employee entitlements	-	(13,750)	-	(13,750)
Provision for Restructuring	(312,254)	-	(312,254)	-
Provision for other costs directly attributable to the acquisition	(675,845)	-	(675,845)	-
<b>Total net assets / (liabilities) acquired</b>	<b>(639,923)</b>	<b>4,033,588</b>	<b>(639,923)</b>	<b>4,033,588</b>
<b>Goodwill on acquisition</b>	<b>3,022,278</b>	<b>1,621,800</b>	<b>3,022,278</b>	<b>1,621,800</b>

# Notes to the financial statements

## 29 Notes to the statements of cash flows

### (a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

	Consolidated		The Company		
	Note	2001 \$	2000 \$	2001 \$	2000 \$
Cash assets	8	656,586	483,686	15,389	15,389
<b>(b) Reconciliation of the operating loss after tax to the net cash flows from operations</b>					
Operating loss after tax		(14,510,473)	(7,072,308)	(13,386,909)	(9,097,623)
<b>Add/(less) non cash items:</b>					
– Depreciation of non – current assets		657,909	65,402	1,183	508
– Amortisation of non – current assets		1,604,283	717,367	-	-
– Write off of non - current assets		5,409,046	-	-	-
– Decrement in value of inventories		-	422,000	-	-
– Provision for doubtful debts		50,000	20,000	-	-
– Provision for non recovery of inter company loans		-	-	6,424,686	8,205,821
– Amortisation of software development expenditure		131,874	27,514	-	-
– Provision for employee entitlements		55,448	32,178	-	-
– Provision for accrued rent		95,100	-	-	-
– Provision for other acquisition costs		69,755	-	69,755	-
– Write off of capitalised mining expenditure		800,000	452,000	800,000	452,000
– Provision for reseller subsidies		138,246	-	-	-
– Write off investments in controlled entities		-	-	6,000,000	-
<b>Add/(less) items classified as investing/financing activities:</b>					
– Restoration provision write back		-	-	-	(35,000)
– Profit on disposal of business assets		(10,573)	(65,000)	(10,573)	-
<b>Net cash (used in) operating activities before change in assets and liabilities</b>		<b>(5,509,385)</b>	<b>(5,400,847)</b>	<b>(101,858)</b>	<b>(474,294)</b>

	<i>Consolidated</i>		<i>The Company</i>		
	<i>Note</i>	<i>2001</i> \$	<i>2000</i> \$	<i>2001</i> \$	<i>2000</i> \$
<b>Changes in assets and liabilities (net of the effects of the purchase of the business of Pocket.com Inc)</b>					
– (increase)/decrease in trade receivables		482,721	(410,472)	-	-
– (increase)/decrease in other debtors		(71,913)	(189,000)	(1,103)	(189,000)
– (increase)/decrease in inventory		774,376	(1,002,255)	-	-
– (increase)/decrease in prepayments / other current assets		1,729	(428,435)	7,651	(2,258)
– (increase)/decrease in deferred software development costs		(97,104)	-	-	-
– increase/(decrease) in trade creditors and accruals		1,365,177	(1,268,509)	(8,822)	(34,850)
– increase/(decrease) in deferred revenue		1,014,675	139,161	-	-
– increase/(decrease) in provisions		(1,217,884)	56,644	(69,755)	-
Net cash (used in)/operating activities		(3,257,608)	(8,503,713)	(173,887)	(700,402)

<b>30 Employee entitlements</b>	<i>Consolidated</i>		<i>The Company</i>		
	<i>Note</i>	<i>2001</i> \$	<i>2000</i> \$	<i>2001</i> \$	<i>2000</i> \$
Aggregate liability for employee entitlements, including on-costs					
Current	19	99,446	44,927	-	-
Non-current	19	1,929	1,000	-	-
		101,375	45,927	-	-
<b>Number of employees</b>					
Number of employees at year end		34	13	-	-

### **Employee share scheme**

An employee share scheme has been established whereby certain employees are issued with options over the ordinary shares of the Company. The options, issued for nil consideration, are part of the employee remuneration package and are based on the assessed skill level of each individual employee. The options are exercisable over a range of 1-3 years from the date of commencement of service. The exercise price of share options varies and reflects the market price of the shares at the date of issue. The options cannot be transferred.

During the year the Company granted options over 1,025,000 unissued ordinary Company shares to 9 employees. In the year ended 30 June 2000 5,225,000 options over ordinary shares were issued to 13 employees.

The market value of shares under these options at 30 June 2001 was \$0.04 per share. (2000:\$ 0.08)

No employee options were exercised or expired during the year ended 30 June 2001.

# Notes to the financial statements

	Consolidated		The Company	
<b>31 Directors' remuneration</b>	2001 \$	2000 \$	2001 \$	2000 \$
<b>Directors' income</b>				
<i>The number of directors of the Company whose income from the Company or any related party falls within the following bands:</i>				
\$ 0 - \$ 9,999	1	1	1	1
\$ 10,000 - \$ 19,999	1	2	1	2
\$ 20,000 - \$ 29,999	1	1	1	1
\$ 40,000 - \$ 49,999	1	-	1	-
\$ 70,000 - \$ 79,999	-	1	-	1
\$ 90,000 - \$ 99,999	-	1	-	1
\$200,000 - \$ 209,999	1	1	1	1
\$250,000 - \$ 259,999	1	-	1	-
The remuneration bands are not consistent with the emoluments disclosed in the Directors' Report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.				
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party	531,031	429,486	531,031	429,486

	Consolidated		The Company	
<b>32 Executives' remuneration</b>	2001 \$	2000 \$	2001 \$	2000 \$
<i>The number of Australian based executive officers of the Company and of controlled entities, whose remuneration from the Company or related parties, and from entities in the consolidated entity is \$100,000 or more, falls within the following bands:</i>				
\$ 120,000 - \$ 129,999	-	1	-	1
\$ 200,000 - \$ 209,999	2	-	2	-
Total income in respect of the financial year received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income is \$100,000 or more	402,698	123,946	402,698	123,946

Executive officers are those officers involved in the strategic direction, general management or control of business at a company or operating division level.

## 33 Related Parties

### Directors

The names of each person holding the position of director of PocketMail Group Limited during the financial year are, David Marchant, Neil Lewis, Chris Coudounaris, Harold Graycar (resigned 15 May 2001), Allan Phillips (resigned 19 October 2000) and Neil Peretz (resigned 29 November 2000).

Details of directors' remuneration are set out in Note 31.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

### Directors' holdings of shares and share options

The interests of directors of the reporting entity and their director-related entities in shares and share options of entities within the consolidated entity at year-end are set out below.

<i>Consolidated</i>		
	<i>2001</i> \$	<i>2000</i> \$
PocketMail Group Limited:		
– Ordinary shares	-	1,826,750
– Options over ordinary shares	2,875,000	3,625,000
	2,875,000	5,451,750

### Directors' transactions in shares and share options

During the year PocketMail Group Limited ("PGL") granted options over 2,025,000 unissued shares under the Employee Share Option Plan. Of these options 1,000,000 were granted to directors and their director-related entities on the same terms and conditions as those granted to other employees.

### Directors' transactions with the Company or its controlled entities

A number of directors of the Company, or their director-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The terms and conditions of the transactions with directors and their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

- (a) The following related party transactions occurred during the financial year:
- (i) *Transactions with related parties in wholly owned group*
    - (a) Interest free loans made by the parent entity to subsidiaries totalling \$14.6 million. (2000: \$8.2 million)
  - (ii) *Transactions with other related parties*
    - (a) Loans amounting to \$5,500,000 (2000:\$1,100,000) have been provided by Bindera, the parent entity of PGL. Interest accrued at 10% per annum contributed \$364,825 to the group consolidated loss after tax. The loan is repayable in September 2002 and loan establishment fees of \$50,000 were charged to PGL.
    - (b) Loans amounting to \$1,000,000 (2000:\$Nil) have been provided by Lewis Family Investments, a director related entity of Neil Lewis. Interest accrued at 10% per annum contributed \$47,577 to the group consolidated loss after tax. The loan is repayable in September 2002 and loan establishment fees of \$15,000 were charged to PGL.

# Notes to the financial statements

## Note 33 Related Parties (Cont...)

(c) A director of Bindera, PGL's parent entity, is also a director of The Strathfield Group Limited. During the year PocketMail Australia Pty Limited made sales, net of rebates and cooperative advertising contributions of (\$73,421) (2000:\$208,314). The amount receivable by PocketMail Australia Pty Limited at year end was \$nil (2000:\$186,444).

**(iii) Transactions with the Directors of PGL and the economic entity**

Chris Coudounaris, a director of PGL has provided a personal guarantee over the repayment of the \$634,398 lease facility and the \$350,000 letter of credit facility granted to PGL.

**(iv) Transactions with director-related entities**

(a) Cavestowe Pty Limited, incorporated in Australia, is the ultimate parent entity of PGL.

(b) A director of Bindera, PGL's major shareholder, is also a director of Cavestowe Pty Limited. During the year ended 30 June 2000, PGL entered into an agreement with Cavestowe Pty Limited to lease premises from Cavestowe for 3 years, with an option to extend the lease for a further 2 years. Annual rental of \$136,800 is payable 2 years from the date of commencement of the lease.

(c) Equity instruments of Directors

*1. Interests in the equity instruments of entities in the consolidated entity held by Directors of the reporting entity and their director-related entities at balance date, being the number of instruments held:*

	Consolidated		The Company	
	2001 \$	2000 \$	2001 \$	2000 \$
David Marchant	-	-	1,875,000	1,875,000
Neil Lewis	-	-	1,000,000	-
Harold Graycar	n/a*	1,826,750	n/a*	1,750,000

\*Harold Graycar resigned as a director during the year ended 30 June 2001. His shareholdings at year end are not applicable.

*1. Movement in directors' equity holdings*

500,000 options over ordinary shares held by a director related entity of Harold Graycar expired on 31 December 2000.

Harold Graycar and his director related entities sold no ordinary shares during the period from 1 July 2000 to 15 May 2001.

1,000,000 options over unissued ordinary shares were issued to Neil Lewis under the Company's Employee Share Plan scheme.

## 34 Events subsequent to balance date

In July 2001 the Company entered into a loan agreement with its major shareholder Bindera, for an amount of \$0.5 million. Interest is charged on this facility at 10% and the principal is repayable on 30 September 2002.

In September, the Company entered into agreement with its lenders, Bindera and Lewis Family Trust, to roll-over loans totaling \$5.5 million and \$1.0 million respectively until 30 September 2002 and 1 September 2002.

# Directors' declaration

In the opinion of the directors of PocketMail Group Limited:

(a) the financial statements and notes, set out on pages 8 to 42, are in accordance with the Corporations Act, 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2001 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 28th day of September 2001.

Signed in accordance with a resolution of the directors:



D Marchant  
Chief Executive Officer

# Independent audit report

## To the members of PocketMail Group Limited

### SCOPE

We have audited the financial report of PocketMail Group Limited for the financial year ended 30 June 2001, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 34 and the directors' declaration [set out on pages 8 to 43]. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this 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 in Australia so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their 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 PocketMail Group Limited is in accordance with:

- (a) the Corporations Act, 2001 including:
  - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2001 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements.

### INHERENT UNCERTAINTY REGARDING CONTINUATION AS A GOING CONCERN

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of matters described in Note 1(b), there is significant uncertainty surrounding the ability of the Company to generate positive net cash-flow in the year ending 30 June 2002.

Factors that influence this include the ability of the Company to convert a substantial portion of existing debt to equity, net growth in subscriber base over the next financial year of approximately 25%, delivery of planned overhead cost reductions, continuing support of certain suppliers and financiers in relation to extended payment terms, utilisation of flexible working capital solutions to fund growth of product sales to retail and other channels and raising of additional capital within the next quarter.

Should the Company be unable to increase subscriber numbers or successfully adopt strategies as outlined in Note 1(b), the Company may not be able to continue as a going concern and may not be able to realise the full value of its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report.

KPMG

Bruce Phillips  
Partner  
Sydney  
28 September 2001

# ASX additional information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

## Shareholdings (as at 31 July 2001)

### Substantial shareholders

The number of shares held by substantial shareholders are set out below:

Shareholder	Ordinary
Bindera Pty Limited	97,637,500
Pocket.Com Inc	36,000,000

### Voting rights

#### Ordinary shares

Refer to Note 21

### Options

Refer to Note 32

## Distribution of equity security holders

Category	Ordinary shares
1 – 1,000	2,095
1,001 – 5,000	1,350
5,001 – 10,000	582
10,000 – 100,000	652
100,000 and over	63
	4,742

### On-market buy-back

There is no current on-market buy-back.

## Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
Bindera Pty Limited	97,637,500	52.25
Pocket.com Inc	36,000,000	19.27
Willow Stand Pty Limited	3,000,000	1.61
Cavestowe Pty Limited	2,965,399	1.59
Newfast Pty Limited	1,216,092	0.65
Hamerst Pty Limited	1,000,000	0.54
Steve Haritos Investments Pty Limited	937,500	0.50
Pinmark Pty Limited	900,000	0.48
MHG Corporation Pty Limited	820,000	0.44
IDC Superannuation Fund	675,000	0.36
Mr James Antoniou	600,000	0.32

# ASX additional information

Name	Number of ordinary shares held	Percentage of capital held
Pinmark Pty Limited	600,000	0.32
Atcorp Superannuation Fund	525,000	0.28
World Square Hotel Pty Limited	513,760	0.27
Kalli Holdings Pty Limited	500,728	0.27
MHG Corp Superannuation Fund	500,000	0.27
Ms Belinda Jane Shearer	499,125	0.27
Ms Sally Ann Norrish	424,125	0.23
Exchange Nominee Pty Limited	295,583	0.16
Mr Zed Mark Severin Oxwell	291,903	0.16
	149,901,715	80.22

## Offices and officers

### Company Secretary

Mr David Mc Arthur

### Principal Registered Office

15 – 17 Hunter Street  
 SYDNEY NSW 2000  
 Telephone: (02) 9234 0000  
 Facsimile: (02) 9233 8370

### Location of Share Registries

Computershare Registry Services  
 Level 2, Reserve Bank Building  
 45 St Georges Terrace  
 PERTH WA 6000  
 Telephone: (08) 9323 2000

### Stock Exchange

The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

### Other information

PocketMail Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

# Corporate governance statement

## BOARD OF DIRECTORS AND ITS COMMITTEES

### ROLE OF THE BOARD

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfill this role, the Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

### BOARD PROCESSES

The full Board currently holds twelve scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

### COMPOSITION OF THE BOARD

The names of the directors of the company in office at the date of this Statement are set out in the Directors' Report.

*The composition of the Board is determined using the following principles:*

- The Board should comprise three directors. This number may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified
- The Chairman of the Board should be an independent non-executive director
- The Board should comprise a majority of non-executive directors, with at least 50% of the Board being independent non-executive directors
- The Board should comprise directors with a broad range of expertise both nationally and internationally
- Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors (other than the Managing Director) are subject to re-election at least every three years. The tenure for executive directors is linked to their holding of executive office.

The composition of the Board is reviewed on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new director with particular skills, a panel of candidates with the appropriate expertise and experience are considered. Potential candidates are identified by the Board with advice from an external consultant if necessary. The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

### CONFLICT OF INTEREST

In accordance with the Corporations Act, 2001 and the company's constitution directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the company. Where the Board believes that a significant conflict exists the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

# Corporate governance statement

## DIRECTOR DEALINGS IN COMPANY SHARES

The Constitution permits directors to acquire shares in the Company. Company policy prohibits directors and senior management from dealing in Company shares or exercising options:

- Except between three and 30 days after either the release of the Company's half-year and annual results to the Australian Stock Exchange, the annual general meeting or any major announcement
- Whilst in possession of price sensitive information.

Directors must obtain the approval of the Chairman of the Board and notify the Company Secretary before they sell or buy shares in the Company. This is reported to the Board and is subject to Board veto. In accordance with the provisions of the Corporations Law and the Listing Rules of the Australian Stock Exchange, directors advise the Exchange of any transactions conducted by them in shares in the Company.

## INDEPENDENT PROFESSIONAL ADVICE AND ACCESS TO COMPANY INFORMATION

Each director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the consolidated entity's expense. A copy of advice received by the director is made available to all other members of the Board.

## AUDIT COMMITTEE

The role of the Audit Committee is documented in a Charter which is approved by the Board of Directors. In accordance with this Charter, all members of the Committee must be non-executive directors. The role of the Committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

The members of the Audit Committee during the year were:

Mr Neil Lewis (Chairman)  
Mr Chris Coudounaris  
Mr Allan Phillips (Resigned 6 November 2000)

The internal and external auditors, the Chief Executive Officer and Financial Controller, are invited to Audit Committee meetings at the discretion of the Committee. The Committee met four times during the year.

The responsibilities of the Audit Committee include:

- Reviewing the financial report and other financial information distributed externally
- Reviewing any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles
- Reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified appropriate and prompt remedial action is taken by management
- Review the nomination and performance of the auditor
- Considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence
- Liaising with the external auditors and ensuring that the annual and half-year statutory audits are conducted in an effective manner
- Monitoring the establishment of an appropriate internal control framework and considering enhancements
- Monitoring the establishment of appropriate ethical standards

- Monitoring the procedures in place to ensure compliance with the Corporations Act, 2001 and Stock Exchange Listing Rules and all other regulatory requirements
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions
- Improving the quality of the accounting function
- Reviewing the declaration from the Company Secretary on compliance with statutory responsibilities.

*The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year as follows:*

#### **Audit planning**

- To discuss the external audit plan
- To discuss any significant issues that may be foreseen
- To discuss the impact of any proposed changes in accounting policies on the financial statements
- To review the nature and impact of any changes in accounting policies adopted by the consolidated entity during the year
- To review the fees proposed for the audit work to be performed.

#### **Prior to announcement of results**

- To review the pro forma half-yearly and pro forma preliminary final report prior to lodgement of those documents with the ASX, and any significant adjustments required as a result of the audit
- To make the necessary recommendation to the Board for the approval of these documents.

#### **Half-year and annual reporting**

- To review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made
- To review the draft financial report and the audit report and to make the necessary recommendation to the Board for the approval of the financial report.

#### **As required**

To organise, review and report on any special reviews or investigations deemed necessary by the Board.

## **INTERNAL CONTROL FRAMEWORK**

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that can be described under five headings:

- Financial reporting – there is a comprehensive budgeting system with an annual budget approved by the directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The consolidated entity reports to shareholders half-yearly.
- Continuous disclosure – the consolidated entity has a policy that all shareholders and investors have equal access to the Company's information and has procedures to ensure that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Law and ASX Listing Rules. All information provided to the ASX is immediately posted to the Company's web site:
  - A comprehensive process is in place to identify matters that may have a material effect on the price of the Company's securities and notify them to the public relations department
  - The CEO, the Financial Controller and the Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board
  - The Company Secretary is responsible for all communications with the ASX.
- Investment appraisal – the consolidated entity has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

# Corporate governance statement

## THE ROLE OF SHAREHOLDERS

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the consolidated entity's state of affairs. Information is communicated to shareholders as follows:

- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year audited financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Law and is lodged with the Australian Securities and Investments Commission and the Australian Stock Exchange. The financial report is sent to any shareholder who requests it
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders
- Notices of all meetings of shareholders

All documents that are released publicly are made available on the consolidated entity's internet web site at [www.pocketmail.com.au](http://www.pocketmail.com.au).

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions. To assist shareholders in communicating issues to the Board reply paid question cards are issued with the annual report.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.



