

**SWIFTEL LIMITED**  
**ACN 009 273 152**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2003**

# COMPANY DIRECTORY

## DIRECTORS

Dr Saliba Sassine (Chairman)  
Christopher Gale (Chief Executive Officer)  
Malcolm Dick (Non Executive)  
Colin Marland (Non Executive)  
Adrian Paul (Non Executive)  
David Vilensky (Non Executive)

## COMPANY SECRETARY

Graeme Boden

## REGISTERED OFFICE

Level 18 QV1 Building  
250 St George's Terrace  
Perth WA 6000  
Telephone: (08) 9480 1222  
Facsimile: (08) 9480 1223  
Email: [mail@swiftel.com.au](mailto:mail@swiftel.com.au)  
Website: [www.swiftel.com.au](http://www.swiftel.com.au)

## AUDITORS

Ernst & Young  
152 St George's Terrace  
Perth WA 6000

## SOLICITORS

Bowen Buchbinder Vilensky  
14<sup>th</sup> Floor 251 Adelaide Terrace  
Perth WA 6000

## BANKERS

Bank of Western Australia Ltd  
1215 Hay Street  
West Perth, W.A. 6005

## SHARE REGISTRY

Security Transfer Registrars Pty Ltd  
PO Box 535  
Applecross  
WA 6953  
Telephone: (08) 9315 0933  
Facsimile: (08) 9315 2233

# Swiftel Limited

## Directors' Report

Your directors present their report on the consolidated entity for the financial year ended 30 June 2003.

### Directors

The names of the directors in office at any time during or since the end of the year are:

C. P. Gale	
D. Vilensky	
Dr S. Sassine	
A. Paul	(appointed 16 October 2002)
M. Dick	(appointed 12 September 2003)
C. Marland	(appointed 12 September 2003)

Unless otherwise indicated, the directors held their position for the entire financial year and up to the date of this report.

### Principal Activities

The principal activities of the consolidated entity during the financial year were the provision of data communication services within the Australian market, predominantly in the central business district of Perth, and the commencement of ADSL internet access services in Sydney and Perth.

### Operating Results

The loss from ordinary activities after income tax of the consolidated entity was \$3,472,818 for the financial year ended 30 June 2003 (2002: \$1,880,911)

### Dividends

No dividends have been paid or declared since the start of the financial year.

### Review of Operations

During the course of the year, the consolidated entity has increased its sales revenue from operations from \$1,799,410 to \$3,860,545. There are 152 corporate clients currently contracted to the Swiftel network generating recurring revenues and 4,300 ADSL customers, of which 3,500 are in Sydney. During the financial year to 30 June 2003, the consolidated entity has expanded its operations into the eastern states by expanding and duplicating its Points of Presence in Sydney and Melbourne.

### Employees

The consolidated entity employed 22 people at 30 June 2003 (30 June 2002: 12)

### Significant Changes in State of Affairs

On 13 March 2003 the directors announced a one for two rights issue at an issue price of two cents per share which resulted, at completion on 14 May 2003, in the allotment of 42,658,406 shares to raise \$853,168 before costs of the issue.

# Swiftel Limited

## Directors' Report

### After Balance Date Events

There have not been any significant events occurring after 30 June 2003 up to date of this report other than the issue of 14,000,000 ordinary shares fully paid at six cents per share to raise \$840,000, placed by resolution of directors to four professional investors. Conditions of this placement included the grant of 14,000,000 free listed March 2005 options, subject to the approval of shareholders. Mr Colin Marland and Mr Malcolm Dick participated in the issue and became directors on 12 September 2003 after the shares were allotted.

### Future Developments

The likely developments in the operations of the consolidated entity in future financial years are to expand the ADSL customer base in Sydney, Melbourne, Brisbane and Perth, to expand the product offering with a full range of voice and data services, and consolidate the client base and product offering on the Perth CBD fibre network.

### Environmental Issues

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

### Information on Directors

The names and details of the company's directors in office during the financial year or until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

CHRISTOPHER PETER GALE

**Chief Executive Officer**

Mr Gale, the founder of Swiftel Communications Pty Ltd, has over fourteen years experience in the data communications field, servicing customer needs for high quality data communications products and services, particularly in Perth. Mr Gale also has substantial experience in the emerging technologies for communications networks and has developed solid relationships with technology manufacturers and vendor suppliers.

DR SALIBA SASSINE BEc(Hons) PhD

**Chairman (Non-Executive)**

Dr Sassine is an experienced director, who has over 15 years experience with several public companies with particular emphasis on the technology sector. He is presently a Non-executive Director of WHI Securities Pty Ltd and Chief Executive Officer of Visiomed Australia.

DAVID VILENSKY BA LLB

**Director (Non-Executive)**

Mr Vilensky is a practising solicitor and managing partner of Perth law firm Bowen Buchbinder Vilensky. He has more than 20 years of experience in the field of corporate and business law and in commercial and corporate management. Mr Vilensky has a special interest in the duties and obligations of company directors under the Corporations Act 2001 and has acted for a number of listed and public companies.

ADRIAN STEPHEN PAUL

**Director (Non-Executive)**

Appointed 16 October 2002

Mr Paul has spent his career working in financial markets following completion of a business degree. He has 15 years experience in investment firms, and during that time has held senior positions including a period as partner. Presently, Mr Paul runs his own capital raising business for clients. He is also a Director of listed company Sylvania Resources NL.

# Swiftel Limited

## Directors' Report

MALCOLM DICK

**Director (Non-Executive)**

Appointed 12 September 2003

Mr Dick has had extensive experience in the telecommunications industry over the past 15 years. He was CEO of Netway Communications - a joint venture between Telecom NZ and Freightways Group. He subsequently established Call Australia Pty Ltd - a switchless carrier which was ultimately sold to RSLCOM. Presently, Mr Dick is part owner of CallPlus Ltd - the third largest fixed line carrier in New Zealand, and Slingshot - a dial-up ISP. He is also a Director and shareholder of Argent Networks Ltd, and ihug

COLIN MARLAND

**Director (Non-Executive)**

Appointed 12 September 2003

Mr Marland has significant experience in the telecommunications industry and was one of the industry's pioneers in the early days of the partially deregulated telecommunications market. He specialises in the conception and start-up phase of telecommunication companies and has successfully listed several companies on the ASX. Mr Marland was a co-founder of People Telecom and corpTEL Group - Australia's largest service provider prior to its sale to AAPT in 1998. Mr Marland is CEO of the Chifley Group which specialises in telecommunications investment and property development.

### Company Secretary

Graeme Raymond Boden BEc(Hons) FCPA FAICD FTIA AFAIM

Mr Boden was appointed Company Secretary on 10<sup>th</sup> October 2002. He is the principal of Boden Corporate Services Pty Ltd which serves a client base of small companies, some of which are progressing to an ASX listing. He has over 15 years experience as a director or secretary of listed companies.

### Directors' Security Holdings

As at the date of this report the directors' share and option holdings and relevant interests therein were:

	Fully Paid Shares	Options
C.P. Gale	19,290,000	11,845,000
Dr S. Sassine	600,000	2,333,332
D. Vilensky	90,645	966,666
A. Paul	11,288,850	17,032,216
M.Dick	7,000,000	-
C.Marland	3,166,667	-

During the financial year the directors participated in the non-renounceable rights issue on the basis of one share for each two shares held at an issue price of \$0.02 per share. The directors participated in the issue only to the extent of their entitlement, which was C Gale (5,646,667 shares), A Paul (3,762,950 shares), S Sassine (200,000 shares) and D Vilensky (30,215 shares).

On 13 August 2003, the company signed an agreement whereby M. Dick and C. Marland subsequently subscribed for 7,000,000 shares and 2,666,667 shares respectively at an issue price of \$0.06 per share, with a provision for a free option to be issued for each share subscribed for subject to shareholder approval. Messrs Dick and Marland became directors after the subscription for the ordinary shares.

# Swiftel Limited Directors' Report

## Directors' And Officers' Emoluments

The following table sets out the remuneration received by the directors of the company during the reporting period.

Directors	Salary	Directors' & Consulting fees	Non-Executive Option Plan (unlisted)	Superannuation Contributions	TOTAL
	\$	\$	\$	\$	\$
C. P. Gale	107,788	75,000	-	9,167	191,955
D. Vilensky	-	16,000	-	-	16,000
Dr S. Sassine	-	24,000	-	-	24,000
A.Paul	-	11,333	-	-	11,333
M. Dick	-	-	-	-	-
C. Marland	-	-	-	-	-

## Emoluments of the five most highly paid executive officers of the company and consolidated entity

Mr Christopher Gale is the only executive officer of the company, details of his remuneration are noted in the table above.

## Remuneration policy of directors and officers

The remuneration is approved by the board and takes into account, the directors' and officers' experience, qualifications and remuneration paid to companies of similar complexity listed on the Australian Stock Exchange.

## Meetings of directors

During the financial year, there were 11 meetings of directors. Attendances were as follows:

	Directors' Meetings	
	Number eligible to attend	Number attended
C P Gale	11	11
D. Vilensky	11	11
Dr S. Sassine	11	11
Mr A Paul	8	7

## Committee Membership

An Audit Committee was established on 22 May 2003 and comprises Mr D Vilensky (chairman) and Dr S Sassine. The committee has met once since its establishment and up to the date of this report.

## Indemnification and Insurance of Directors and Officers

During the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has entered into a directors' & officers' insurance contract on 2 January 2003 for the purpose of insuring against any liability that may arise from the directors carrying out their duties and responsibilities in their capacity as officers of the company. The amount of the premium was \$31,703.

# Swiftel Limited

## Directors' Report

### Options

The following options over issued shares or interests in the company were granted during or since the end of the financial year:

- 301,560 granted on 1 January 2003, exercise price of 15 cents on or before 1 January 2005 (Employee Options)
- 50,000 granted on 1 January 2003, exercise price of 10 cents on or before 1 January 2005. (Employee Options)

Shares have been issued by virtue of the exercise of options during the year or to the date of this report, to the extent of 45 listed March 2005 options which were exercised at a price of ten cents per share. 321,900 employee options exercisable on or before 1 August 2003 lapsed unexercised. There are 68,162,982 unissued ordinary shares for which options are outstanding at the date of this report.

Grant Date	No. Of Options	Exercise price	Expiry Date	
Prior to October 2000	1,050,000	20 cents	10 March 2004	
October 2000	1,000,000	40 cents	3 October 2005	
5 September 2001	4,999,955	40 cents	13 March 2005	
5 April 2002	1,999,998	17.5 cents	30 September 2006	Non-executive Options
16 April 2002	58,352,056	10 cents	13 March 2005	
15 May 2002	409,413	10 cents	1 January 2005	Employee Options
1 January 2003	50,000	10 cents	1 January 2005	Employee Options
1 January 2003	301,560	15 cents	1 January 2005	Employee Options
	68,162,982			

### Corporate Governance

In recognising the need for the highest standard of corporate behaviour and accountability, the directors support and have adhered to the principles of Corporate Governance. The Company's Corporate Governance Statement is contained in the following section of this annual report.

Signed in accordance with a resolution of the Board of Directors:

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**Christopher Gale**  
Director

**Dated this 30th day of September 2003**

# Corporate Governance Statement

## Corporate Governance

The Board of Directors of Swiftel is responsible for the Corporate Governance of the consolidated entity.

The Board of Directors is responsible for setting the strategic direction and establishing the policies of Swiftel, for overseeing the financial position, and for monitoring the business and affairs on behalf of the shareholders, by whom the directors are elected and to whom they are accountable.

Responsibility for day to day activities is delegated by the Board to the chief executive officer and his senior management team.

Swiftel's main Corporate Governance practices in place during the financial year are summarised below:

## Composition of the Board

Details of the directors of Swiftel 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:

- In accordance with the Constitution the Board should comprise at least three directors, increasing where it is felt that additional experience is required in specific areas, or when an outstanding candidate materialises.
- The Board should comprise directors with an appropriate range of qualifications and expertise.
- The Chairman should be a non-executive director.

Directors are initially appointed by the full Board are subject to election by shareholders at the next Annual General Meeting, and re-election at three-yearly intervals.

## Independent Professional Advice

In fulfilling their duties, each director has the right to seek independent professional advice at the company's expense, but only after first notifying the Chairman of the Company of such an intention.

## Reviewing Compensation Arrangements

On an annual basis the directors review and make recommendations as to remuneration packages. Remuneration of directors is determined by the Board within the maximum amount approved by the shareholders from time to time. The executive director reviews annually the overall remuneration package and policies for staff employed by company.

This review ensures that the remuneration policy structure is equitable, market competitive and consistent so as to ensure the recruitment and retention of staff with the capability and experience necessary for the achievement of Swiftel's business objectives. Reviews of remuneration for directors and staff are undertaken taking into consideration advice from appropriate external consultants where appropriate.

The Board is responsible for reviewing the allotment of options under the Employee Incentive Scheme.

# Corporate Governance Statement

## Identifying and Managing Business Risks and Internal Control Framework

The Board monitors the operational and financial performance of the company and the consolidated entity against budget and other key performance measures. The Board in conjunction with management and appropriate consultants, also reviews and receives advice on areas of operational and financial risks.

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 as follows:

- Financial reporting - The Consolidated Entity reports to Australian Stock Exchange Limited yearly and half-yearly. Procedures are also in place to ensure that price sensitive information is reported to Australian Stock Exchange Limited in accordance with Continuous Disclosure Requirements.
- Operations review - A member of the Board regularly visits key sites to inspect the operations and meet employees.

## Codes Of Conduct

All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. All directors and employees who are members of a professional body are required to comply with their respective bodies' ethical standards.

**Swiftel Limited**  
**Statements of Financial Performance**  
**For the year ended 30 June 2003**

	Note	CONSOLIDATED		SWIFTEL LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
<b>Revenues from ordinary activities</b>	2	3,985,919	1,913,375	119,954	137,029
Cost of sales		(2,089,552)	(1,503,055)	-	-
Employee benefits expenses		(1,164,676)	(822,670)	(1,164,676)	(822,670)
Depreciation and amortisation	3	(613,587)	(425,490)	(176,371)	(166,983)
Borrowing costs	3	(95,312)	(16,597)	(37,340)	(12,882)
Other expenses from ordinary activities	3	(3,497,012)	(1,030,058)	(2,839,814)	(866,753)
<b>Loss from ordinary activities before income tax</b>		(3,472,818)	(1,884,495)	(4,098,247)	(1,732,259)
Income tax expense relating to ordinary activities		-	-	-	-
<b>Loss from ordinary activities after income tax</b>		(3,472,818)	(1,884,495)	(4,098,247)	(1,732,259)
Net (Profit)/loss attributable to outside equity interest	22	-	3,584	-	-
<b>Net loss attributable to members of Swiftel Limited</b>		(3,472,818)	(1,880,911)	(4,098,247)	(1,732,259)
Total revenues, expenses and valuation adjustments recognised directly in equity		-	-	-	-
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		(3,472,818)	(1,880,911)	(4,098,247)	(1,732,259)
Basic earnings/(loss) per share (cents per share)	5	(3.8)	(2.3)		
Diluted earnings/(loss) per share (cents per share)	5	(3.8)	(2.3)		

The accompanying notes form an integral part of these financial statements.

**Swiftel Limited**  
**Statements of Financial Position**  
**As at 30 June 2003**

	Note	CONSOLIDATED		SWIFTEL LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
<b>Current Assets</b>					
Cash assets	6	341,187	961,202	264,871	958,753
Receivables	7	853,833	410,401	53,429	37,420
Other financial assets	8	-	59,364	-	59,364
Other	9	312,311	253,822	60,933	11,865
<b>Total Current Assets</b>		<b>1,507,331</b>	<b>1,684,789</b>	<b>379,233</b>	<b>1,067,402</b>
<b>Non Current Assets</b>					
Receivables	10	-	80,200	2,571,959	3,031,765
Other financial assets	11	-	-	130,105	1,581,201
Property, plant and equipment	12	3,376,739	2,889,391	369,293	472,635
Other	13	-	206,106	-	-
Intangible assets	14	-	1,534,588	-	-
<b>Total Non Current Assets</b>		<b>3,376,739</b>	<b>4,710,285</b>	<b>3,071,357</b>	<b>5,085,601</b>
<b>Total Assets</b>		<b>4,884,070</b>	<b>6,395,074</b>	<b>3,450,590</b>	<b>6,153,003</b>
<b>Current Liabilities</b>					
Payables	15	1,466,006	860,134	1,461,806	840,134
Interest bearing liabilities	16	685,989	355,137	79,068	51,606
Provisions	17	116,589	87,082	116,589	87,081
Other current liabilities	18	318,774	185,654	-	-
<b>Total Current Liabilities</b>		<b>2,587,358</b>	<b>1,488,007</b>	<b>1,657,463</b>	<b>978,821</b>
<b>Non-Current Liabilities</b>					
Interest bearing liabilities	16	327,665	267,624	13,518	98,748
<b>Total Non-Current Liabilities</b>		<b>327,665</b>	<b>267,624</b>	<b>13,518</b>	<b>98,748</b>
<b>Total Liabilities</b>		<b>2,915,023</b>	<b>1,755,631</b>	<b>1,670,981</b>	<b>1,077,569</b>
<b>Net Assets</b>		<b>1,969,047</b>	<b>4,639,443</b>	<b>1,779,609</b>	<b>5,075,434</b>
<b>Equity</b>					
Contributed equity	19	17,343,683	16,541,261	17,343,683	16,541,261
Reserves	20	814,508	814,508	814,508	814,508
Accumulated losses	21	(16,189,144)	(12,716,326)	(16,378,582)	(12,280,335)
<b>Total Equity</b>		<b>1,969,047</b>	<b>4,639,443</b>	<b>1,779,609</b>	<b>5,075,434</b>

The accompanying notes form an integral part of these financial statements.

**Swiftel Limited**  
**Statements of Cash Flows**  
**For the year ended 30 June 2003**

	Note	CONSOLIDATED		SWIFTEL LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
<b>Cash Flow From Operating Activities</b>					
Receipts from customers		3,551,512	1,635,588	1,448	111,019
Payments to suppliers & employees		(4,337,717)	(2,572,040)	(1,891,917)	(1,317,062)
Interest received		21,547	35,432	21,163	35,331
Interest and borrowing costs paid		(95,312)	(16,597)	(37,340)	(12,882)
GST received/(paid)		(33,816)	(12,460)	(16,565)	-
Net cash used in operating activities	24	(893,786)	(930,077)	(1,923,211)	(1,183,594)
<b>Cash Flow From Investing Activities</b>					
Payment for property, plant & equipment		(667,443)	(369,314)	(73,030)	(43,571)
Proceeds from sale of shares		97,899	-	97,899	-
Advance to Wholly Owned Subsidiary		-	-	-	(214,821)
Net cash used in investing activities		(569,545)	(369,314)	24,869	(258,392)
<b>Cash Flow From Financing Activities</b>					
Proceeds from share issue		853,172	1,204,748	853,172	1,204,748
Payment of share issue cost		(50,750)	(79,614)	(50,750)	(79,614)
Proceeds from option issue		-	1,074,344	-	1,074,344
Payment of option issue cost		-	(60,774)	-	(60,774)
Proceeds from Loans		250,000	-	250,000	-
Payment of Loan		(250,000)	-	(250,000)	-
Proceeds from borrowings - other		207,503	-	484,560	-
Repayment of finance lease principal		(166,610)	(160,707)	(82,522)	(20,324)
Net cash from financing activities		843,315	1,977,997	1,204,460	2,118,380
Net increase/(decrease) in cash held		(620,015)	678,606	(693,882)	676,394
Cash at the beginning of the financial year		961,202	282,596	958,753	282,359
Cash at the end of the financial year	6	341,187	961,202	264,871	958,753

The accompanying notes form an integral part of these financial statements.

# **Swiftel Limited**

## **Notes to the Financial Statements**

### **For the year ended 30 June 2003**

#### **Note 1: Statement of Significant Accounting Policies**

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

Swiftel Limited is a listed public company, registered and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report.

#### **a) Going concern**

The company and the consolidated entity have made a net loss from ordinary activities of \$4,098,247 and \$3,472,818 respectively for the year ended 30 June 2003 (2002: \$1,732,259 and \$1,880,911 respectively), and have net current liabilities as at 30 June 2003 of \$1,278,230 and \$1,080,027 respectively.

Notwithstanding the matters referred to above, the directors have prepared the financial statements of the company and the consolidated entity on a going concern basis. In arriving at this position the directors have considered the following pertinent matters:

- (i) subsequent to 30 June 2003 the company has raised \$840,000 via the placement of 14,000,000 ordinary fully paid shares at six cents per share to four professional investors;
- (ii) subsequent to 30 June 2003, the company has refinanced its major equipment lease and associated maintenance arrangement at a cash saving of approximately \$233,000 per annum;
- (iii) during the year ended 30 June 2003 the consolidated entity demonstrated the capacity to increase sales revenues, many of which are on a recurring basis, including the launching of a new business as an ADSL marketer;
- (iv) at 30 June 2003 and subsequent to 30 June 2003 the number of ADSL customers has exceeded the estimate upon which expected profitability and positive cashflows for the 30 June 2004 year was based;
- (v) the consolidated entity has secured arrangements with a strategic partner which allows it to become a full service telecommunications provider, further enhancing its ability to increase revenues; and
- (vi) the directors are confident of their ability to secure additional working capital should it become necessary to do so.

Should the directors not materially achieve the matters set out above, there is significant uncertainty whether the company and the consolidated entity will be able to continue as going concerns and therefore realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities, that might be necessary should the company and the consolidated entity not be able to continue as going concerns.

#### **b) Changes in accounting policies**

The accounting policies adopted are consistent with those of the previous year except for the accounting policy with respect to employee benefits.

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

**Note 1: Statement of Significant Accounting Policies (cont'd)**

The consolidated entity has adopted the revised Accounting Standard AASB 1028 "Employee Benefits", which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. Previously, the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirements of the revised Standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. As the impact of this change is immaterial to the consolidated entity, no adjustment has been made against accumulated losses.

**c) Principles of consolidation**

The consolidated financial statements are those of the consolidated entity, comprising Swiftel Limited (the parent entity) and all entities that Swiftel Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

**d) Cash**

For the purpose of the statement of cash flows, cash includes:

- (i) cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- (ii) investments in money market instruments with less than 90 days to maturity.

**e) Receivables**

Trade receivables are recognised and carried at original invoice amount less a provision for doubtful debtors. An estimate for doubtful debtors is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables for related parties are recognised and carried at the nominal amount due, interest is taken up as income on an accrual basis.

**f) Investments**

Listed shares held for trading are carried at the lower of cost and net market value. Changes in net market value are recognised as revenue or expense in the statement of financial performance for the period.

All other non-current investments are carried at the lower of cost and recoverable amount in the consolidated financial report.

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

**Note 1: Statement of Significant Accounting Policies (cont'd)**

**g) Recoverable amount**

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market denominated risk adjusted discount rate.

**h) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost less any accumulated depreciation or amortisation.

*Depreciation*

The depreciable amount of all fixed assets and capitalised leased assets, is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

<i>Class of Asset</i>	<i>Depreciation Rate</i>
Telecommunications infrastructure	5% - 10%
Office plant & equipment	20% - 33%
Leased plant and equipment	20% - 33%

**i) Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

**j) Goodwill**

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at date of acquisition. Purchased goodwill is amortised on a straight line basis over the period of 20 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

**Note 1: Statement of Significant Accounting Policies (cont'd)**

**k) Other non-current assets**

*Expenditure carried forward*

Significant items of carry forward expenditure having a benefit or relationship to more than one period are written off over the periods to which such expenditure relates.

**l) Payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables to related parties are carried at the principal amount. Interest when charged by the lender is recognised as an expense on an accrual basis.

**m) Interest-bearing liabilities**

All loans are measured at the principal amount. Interest is charged as an expense as it accrues. Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

**n) Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of obligation.

**o) Contributed Equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares and listed options are recognised directly in equity as a reduction of the share proceeds received.

**p) Revenue**

Revenue from the rendering of services is recognised upon delivery of the service to the customer. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Where monies are received in advance of the delivery of service, the amount is recorded as unearned revenue until the service is delivered

All revenue is stated net of the amount of goods and services tax (GST).

**q) Borrowing costs**

Borrowing costs are expensed as incurred except where they relate to the financing of projects under construction where they are capitalised up to the date of commissioning or sale.

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

**Note 1: Statement of Significant Accounting Policies (cont'd)**

**r) Income Tax**

(i) *Income Tax* - The company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the result from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of the accounting result and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(ii) *Goods and Services Tax* – Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a net basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**s) Employee Entitlements**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and other employee benefits expected to be settled within 12 months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of the future cash outflows, the market yield as at the reporting date on national government bonds, which have terms of maturity approximating the terms of the related liability, are used.

# Swiftel Limited

## Notes to the Financial Statements

### For the year ended 30 June 2003

#### Note 1: Statement of Significant Accounting Policies (cont'd)

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and
- other types of employee benefits

are recognised against profit on a net basis in the respective categories.

The value of the equity based compensation scheme described in note 29 is not being recognised as an employee benefits expense.

#### t) Earnings per Share

Basic EPS is calculated as net profit/(loss) attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit/(loss) attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

#### u) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

	<b>CONSOLIDATED</b>		<b>SWIFTEL LIMITED</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	\$	\$	\$	\$
<b>Note 2: Revenue from ordinary activities</b>				
Operating activities				
Sales revenue – services rendered	3,860,545	1,799,410	-	-
Interest income	21,547	35,432	21,163	35,331
Proceeds from sale of shares (3b)	97,899	-	97,899	-
Sundry income	5,928	78,533	892	101,698
<b>Total operating revenues</b>	<b>3,985,919</b>	<b>1,913,375</b>	<b>119,954</b>	<b>137,029</b>
<b>Total Revenue from ordinary activities</b>	<b>3,985,919</b>	<b>1,913,375</b>	<b>119,954</b>	<b>137,029</b>

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

	CONSOLIDATED		SWIFTEL LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>Note 3: Profit/(Loss) from ordinary activities</b>				
<i>a) Expenses from ordinary activities include the following:</i>				
Borrowing costs expensed				
Interest expense				
- Finance lease	62,924	16,597	5,268	12,882
- Other	7,132	-	6,816	-
Other borrowing costs	25,256	-	25,256	-
Total borrowing costs	95,312	16,597	37,340	12,882
Depreciation				
- telecommunication assets	198,611	160,045	-	-
- plant and equipment	160,455	158,676	158,440	156,141
- leased plant and equipment	171,029	20,537	17,931	10,842
	530,095	339,258	176,371	166,983
Amortisation of goodwill	83,492	83,492	-	-
Amortisation of deferred costs	-	2,740	-	-
	-	86,232	-	-
	613,587	425,490	176,371	166,983
Other operating expenses				
Deferred costs written off	42,346	10,629	-	-
Goodwill written off	1,451,096	-	-	-
Investment in subsidiary written off	-	-	1,451,096	-
Provision for doubtful debtors	38,465	37,005	-	-
Bad debts written off	-	28,341	-	-
Consultancy, accountancy & admin fees	403,705	195,388	398,401	154,464
Insurance expense	91,865	55,715	91,865	55,715
Public relations and marketing costs	116,197	40,629	115,123	37,435
Facilities based expenses	50,610	44,402	47,276	37,979
Rental expense on operating leases (minimum lease payments)	650,744	422,259	295,692	279,851
Auditors' Remuneration:				
Auditing or reviewing the financial report				
Ernst & Young	26,402	8,142	26,402	8,142
Arthur Andersen	-	3,858	-	3,858
Other Services				
Ernst & Young	1,300	-	-	-
Arthur Andersen	-	500	-	500
Carrying amount of investments disposed (b)	59,364	-	59,364	-
Other operating costs	564,918	183,190	354,595	288,809
	3,497,012	1,030,058	2,839,814	866,753
<i>b) Losses/(gains)</i>				
Net gain on disposal of shares	38,535	-	38,535	-

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

	<b>CONSOLIDATED</b>		<b>SWIFTEL LIMITED</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	\$	\$	\$	\$
<b>Note 4: Income Tax Expense</b>				
(a) The prima facie tax benefit on operating loss from ordinary activities before income tax is reconciled to the income tax expense as follows:				
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2002: 30%)	1,041,845	565,349	1,229,474	519,678
Less tax effect of permanent differences;				
Amortisation of goodwill	(25,048)	(25,048)	-	-
Goodwill written off	(435,328)	-	-	-
Non-deductible costs	(3,307)	(1,988)	(3,307)	(1,988)
Write down of investment in subsidiary	-	-	(460,376)	-
Reduction in opening balance of deferred taxes resulting from reduction in tax rate	-	(21,654)	-	(22,665)
Less:				
Future income tax benefits not brought to account as realisation is not virtually certain	(578,162)	(516,659)	(765,791)	(495,025)
Income tax expense	-	-	-	-
Estimated unconfirmed and unutilised income tax losses available to offset future years taxable income	5,241,588	3,314,380	5,869,263	3,316,626
Tax benefit at 30%	1,572,476	994,314	1,760,779	994,988

No income tax is payable by the consolidated entity for the period. The directors have not brought to account the future income tax benefit arising from income tax losses until there is virtual certainty of deriving assessable income of a nature and amount to enable such benefits to be realised. The benefits of these losses will only be obtained if:

- i) The consolidated entity derives future assessable income of a nature and of an amount sufficient to enable such benefits to be realised;
- ii) The consolidated entity continues to comply with the conditions of deductibility imposed by the relevant law; and
- iii) No changes in the tax legislation adversely affect the consolidated entity in realising the benefits from the deduction for the loss.

**Tax consolidation**

As at 30 June 2003, the consolidated entity had not yet elected to become a tax consolidated group, therefore no deferred tax balances have been adjusted to reflect any changes in the revised tax legislation.

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

	<b>CONSOLIDATED</b>	
	<b>2003</b>	<b>2002</b>
	\$	\$
<b>Note 5: Earnings per share</b>		
Net Loss used in the calculation of basic and diluted EPS	3,472,818	1,880,911
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted EPS	90,809,856	82,748,489

There were no dilutive potential ordinary shares at balance date.

	<b>CONSOLIDATED</b>		<b>SWIFTEL LIMITED</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	\$	\$	\$	\$
<b>Note 6: Cash assets</b>				
Cash at bank	62,525	97,933	59,814	95,484
Deposits at call	278,662	863,269	205,057	863,269
	341,187	961,202	264,871	958,753

<b>Note 7: Receivables (current)</b>				
Trade debtors	825,106	417,495	-	556
Provision for Doubtful Debtors	(35,000)	(37,005)	-	-
GST net receivable	63,727	29,911	53,429	36,864
	853,833	410,401	53,429	37,420

**Terms and conditions**

Terms and conditions relating to the above financial instruments

(i) Trade debtors are non-interest bearing and generally on 30 day terms.

<b>Note 8: Other financial assets (current)</b>				
Shares				
Listed - at cost	-	59,364	-	59,364
		59,364		59,364

<b>Note 9: Other (current)</b>				
Prepayments	312,311	253,822	60,933	11,865
		253,822		11,865

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

	CONSOLIDATED		SWIFTEL LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>Note 10: Receivables (non-current)</b>				
Other receivables	-	80,200	-	80,200
<i>Related Party Receivables</i>				
Controlled entities	-	-	2,571,959	2,951,565
	-	80,200	2,571,959	3,031,765

**Note 11: Other financial assets (non-current)**

Shares				
Unlisted controlled entities - at cost	-	-	130,105	1,581,201

	Class of Share	2003		2002	
		Holding	Investment	Holding	Investment
		%	\$	%	\$
Swiftel Communications Pty Ltd	Ordinary	100%	130,104	100%	1,581,200
Swiftel Technologies Pty Ltd	Ordinary	100%	1	100%	1
			130,105		1,581,201

All companies within the consolidated group are incorporated in Australia.

	CONSOLIDATED		SWIFTEL LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>Note 12: Property, plant and equipment</b>				
<i>Plant and Equipment</i>				
Telecommunications Infrastructure at cost	2,988,270	2,497,860	-	-
Less accumulated depreciation	(494,382)	(245,353)	-	-
	2,493,888	2,252,507	-	-
Office plant and equipment - at cost	771,027	764,361	762,267	721,079
Less accumulated depreciation	(432,696)	(273,115)	(430,682)	(273,231)
	338,331	491,246	331,585	447,758
Leased plant and equipment - at cost	689,170	169,387	69,692	38,930
Less accumulated depreciation	(144,650)	(23,749)	(31,984)	(14,053)
	544,520	145,638	37,708	24,877
Total property, plant and equipment	3,376,739	2,889,391	369,293	472,635

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

(a) Movements in Carrying Amounts – Consolidated 2003

	Opening WDV	Additions	Disposals	Depreciation	Closing WDV
Telecommunications Infrastructure	2,252,507	439,992	-	(198,611)	2,493,888
Office plant and equipment	491,246	7,540	-	(160,455)	338,331
Leased plant and equipment	145,638	569,911	-	(171,029)	544,520
	<u>2,889,391</u>	<u>1,017,443</u>	<u>-</u>	<u>(530,095)</u>	<u>3,376,739</u>

(b) Movements in Carrying Amounts – Swiftel Limited 2003

	Opening WDV	Additions	Disposals	Depreciation	Closing WDV
Office plant and equipment	447,758	42,268	-	(158,441)	331,585
Leased plant and equipment	24,877	30,762	-	(17,931)	37,708
	<u>472,635</u>	<u>73,030</u>	<u>-</u>	<u>(176,372)</u>	<u>369,293</u>

**Assets pledged as security**

Assets under lease are pledged as security for the associated lease liabilities.

	<b>CONSOLIDATED</b>		<b>SWIFTEL LIMITED</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	\$	\$	\$	\$
<b>Note 13: Other (non-current)</b>				
Deferred costs	-	45,086	-	-
Accumulated amortisation	-	(2,740)	-	-
	-	<u>42,346</u>	-	-
Prepayments	-	163,760	-	-
	-	<u>206,106</u>	-	-
<b>Note 14: Intangible Assets</b>				
Goodwill at cost	1,669,835	1,669,835	-	-
Less accumulated amortisation	(218,739)	(135,247)	-	-
Less write down	(1,451,096)	-	-	-
	-	<u>1,534,588</u>	-	-
<b>Note 15: Payables</b>				
Trade creditors	1,316,049	800,908	1,316,049	800,908
Accrued expenses	149,957	59,226	145,757	39,226
	<u>1,466,006</u>	<u>860,134</u>	<u>1,461,806</u>	<u>840,134</u>

**Terms and conditions**

Terms and conditions relating to the above financial instruments

(i) Trade creditors are non-interest bearing and normally settled on 30 day terms.

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

	CONSOLIDATED		SWIFTEL LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>Note 16: Interest bearing liabilities</b>				
<i>Current</i>				
Borrowings	56,228	-	56,228	-
Lease liability	629,761	355,137	22,840	51,606
	685,989	355,137	79,068	51,606

*Non current*

Lease liability	327,665	267,624	13,518	98,748
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**Terms and conditions relating to the above lease liabilities;**

Finance leases have an average lease term of 3 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the leases is 7.53% (2002: 5.81%). Lease liabilities are secured by a charge over the leased assets.

**Note 17: Provisions**

*Current*

Forfeited shares account	54,590	54,590	54,590	54,590
Employee entitlements	61,999	32,492	61,999	32,491
	116,589	87,082	116,589	87,081

**Note 18: Other current liabilities**

*Current*

Unearned Income	318,774	185,654	-	-
	318,774	185,654	-	-

**Note 19: Contributed equity**

127,975,262 fully paid ordinary shares (2002: 85,316,811)

	17,343,683	16,541,261	17,343,479	16,541,261
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	2003	2003	2002	2002
	Number	\$	Number	\$
(a) Ordinary shares				
At the beginning of the financial year	85,316,811	16,541,261	60,237,383	14,567,068
Rights Issue – 1 for 2 at \$0.02 each	42,658,406	853,168	-	-
Share Options Exercised - 45 at 10 cents each	45	4	-	-
Rights Issue at \$0.06 each	-	-	20,079,127	1,204,748
Exercise of options at \$0.20 each	-	-	301	60
Swiftel Communications Pty Ltd 19.9% acquisition	-	-	5,000,000	500,000
Option issue premium August 2001	-	-	-	199,000
Option issue for acquisition	-	-	-	150,000
Share issue costs	-	(50,750)	-	(79,618)
	127,975,262	17,343,683	85,316,811	16,541,261

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

(b) Share Options

During the year 45 listed March 2005 options were exercised at a price of 10 cents per share, and 321,900 employee options exercisable on or before 1 August 2003 lapsed unexercised. New options issued were 351,560 granted to employees pursuant to existing arrangements.

At 30 June 2003, there were 68,484,882 unissued ordinary shares for which options were outstanding, as follows:

Grant Date	No. Of Options	Exercise price	Expiry Date	
Prior to October 2000	1,050,000	20 cents	10 March 2004	
October 2000	1,000,000	40 cents	3 October 2005	
5 September 2001	4,999,955	40 cents	13 March 2005	
5 February 2002	321,900	30 cents	1 August 2003	Employee Options
5 April 2002	1,999,998	17.5 cents	30 September 2006	Non-executive Options
16 April 2002	58,352,056	10 cents	13 March 2005	
15 May 2002	409,413	10 cents	1 January 2005	Employee Options
1 January 2003	50,000	10 cents	1 January 2005	Employee Options
1 January 2003	301,560	15 cents	1 January 2005	Employee Options
	68,484,822			

***Terms and conditions of contributed equity;***

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of surplus assets in proportion to the number of an amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

	CONSOLIDATED		SWIFTEL LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>Note 20: Reserves</b>				
<b>(a) Option premium reserve</b>				
Opening balance	814,508	-	814,508	-
Add issue of 58,352,056 options at 1.5 cents each expiring 13 March 2005, exercisable at 10 cents each (less costs to issue options) (i)	-	814,508	-	814,508
Closing Balance	814,508	814,508	814,508	814,508
(i) Option issue costs for 2002 were \$60,774				
<b>(b) Asset realisation reserve</b>				
Opening balance	-	4,044,120	-	4,044,120
Less transfer to Accumulated Losses		(4,044,120)		(4,044,120)
Closing Balance	-	-	-	-
<b>Total Reserves</b>	814,508	814,508	814,508	814,508

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

	CONSOLIDATED		SWIFTEL LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>Note 21: Accumulated losses</b>				
Accumulated losses at the beginning of the year	12,716,326	14,879,535	12,280,335	14,592,199
Net loss from ordinary activities after income tax	3,472,818	1,880,911	4,098,247	1,732,256
Transfer from Asset Realisation Reserve	-	(4,044,120)	-	(4,044,120)
Accumulated losses at the end of the financial year	16,189,144	12,716,326	16,378,582	12,280,335

**Note 22: Outside Equity Interest**

Opening balance	-	(60,081)		
Add share of loss from ordinary activities	-	(3,584)		
Less acquisition of minority interest	-	63,665		
Closing balance	-	-		

**Note 23: Capital and Leasing Commitments**

(a) Finance Lease Commitments

Payable				
- not later than 1 year	689,719	378,475	25,019	63,425
- later than 1 year but not later than 5 years	363,964	278,694	14,559	106,562
Minimum lease payments	1,053,683	657,169	39,578	169,987
Less future finance charges	(96,357)	(34,408)	(3,220)	(19,633)
Total lease liability	957,426	622,761	36,358	150,354
- current liability	629,761	355,137	22,840	51,606
- non-current liability	327,665	267,624	13,518	98,748
Total lease liability	957,426	622,761	36,358	150,354

(b) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

Payable				
- not later than 1 year	502,008	701,610	302,918	302,918
- later than 1 but not later than 5 years	528,529	826,135	322,742	625,660
	1,030,537	1,527,745	625,660	928,578

*Terms and conditions relating to the above lease commitments:*

Finance leases are utilised to acquire plant equipment and telecommunications infrastructure. Operating lease commitments include rent on the administration office which at 30 June 2003 has a further 25 months prior to expiry.

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

	CONSOLIDATED		SWIFTEL LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>Note 24: Cash Flow Information</b>				
<i>(a) Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax</i>				
Loss from ordinary activities after income tax	(3,472,818)	(1,884,495)	(4,098,247)	(1,732,259)
Non cash items				
- Depreciation	530,095	339,258	176,372	166,983
- Amortisation	83,492	86,232	-	-
- Goodwill written off	1,451,096	-	-	-
- Provision for doubtful debts	38,465	37,005	-	-
- Bad debt written off	-	28,341	-	-
- Deferred costs written off	42,346	10,629	-	-
- Investment in subsidiary written off	-	-	1,451,096	-
- Net (profit)/loss on disposal of investments	(38,535)	-	(38,535)	-
Changes in assets and liabilities				
- (Increase)/Decrease in trade receivables	(448,081)	(237,336)	556	9,321
- (Increase)/Decrease in other receivables	(33,816)	86,976	(16,565)	-
- (Increase)/Decrease in other non-current assets	80,200	-	-	-
- (Increase)/Decrease in current prepayments	(58,489)	22,416	(49,068)	(11,866)
- (Increase)/Decrease in non-current prepayments	163,760	156,713	-	-
- (Increase)/Decrease in deferred costs	-	(45,086)	-	-
- Increase/(Decrease) in trade creditors and accruals	605,872	376,196	621,672	376,116
- Increase/(Decrease) in interest bearing liabilities	-	(30,408)	-	-
- Increase/(Decrease) in unearned income	133,120	-	-	-
- Increase/(Decrease) in provisions	29,507	123,482	29,508	8,111
Cash Flows from Operating Activities	<u>(893,786)</u>	<u>(930,077)</u>	<u>(1,923,211)</u>	<u>(1,183,594)</u>

**(b) Non-Cash Finance and Investing activities**  
*Finance Lease Transactions*

During the financial year the consolidated entity acquired plant and equipment with an aggregate fair value of \$350,000 (2002: \$130,456) via finance leases.

During the year the parent entity transferred finance lease liabilities to a subsidiary with an aggregate fair value of \$459,806.

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

**Note 25: Remuneration of directors and executives**

	<b>Consolidated</b>		<b>Swiftel Limited</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	\$	\$	\$	\$
a) Remuneration of directors:				
Income paid or payable to all directors of each entity in the Consolidated Entity by the entities of which they are directors and any related parties	<u>243,288</u>	<u>258,715</u>	<u>243,288</u>	<u>258,715</u>

The number of parent entity directors whose income from the parent entity or related bodies corporate falls within the specified bands is as follows:

		<b>2003</b>	<b>2002</b>
		<b>Number</b>	<b>Number</b>
\$0	-	\$9,999	-
\$10,000	-	\$19,999	2
\$20,000	-	\$29,999	1
\$40,000	-	\$49,999	-
\$90,000	-	\$99,999	-
\$180,000	-	\$189,999	-
\$190,000	-	\$199,999	1
		<hr/>	<hr/>
		4	5

	<b>Consolidated</b>		<b>Swiftel Limited</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	\$	\$	\$	\$
b) Remuneration of Executives				
Remuneration received, or due and receivable by executive officers (including directors) whose remuneration is \$100,000 or more, from entities in the economic entity and related parties, in connection with the management of the affairs of the entities in the economic entity	<u>191,955</u>	<u>183,415</u>	<u>191,955</u>	<u>183,415</u>

	<b>Consolidated</b>		<b>Swiftel Limited</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
The number of executive officers (including directors) whose income was within the specified bands:				
\$180,000 - \$189,999	-	1	-	1
\$190,000 - \$199,999	1	-	1	-

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

**Note 26: Related party disclosures**

**DIRECTORS**

a) The directors of the parent entity who have held office during the financial year are:

C. P. Gale  
D. Vilensky  
Dr S. Sassine  
A. Paul (appointed 16 October 2002)

b) Information on the remuneration of directors is set out in Note 24.

**TRANSACTIONS WITH DIRECTORS AND DIRECTOR-RELATED ENTITIES**

*(a) Transactions with director related entities*

(i) Fees amounting to \$38,376 (2002: \$15,716) for legal services were paid to the legal firm of Bowen Buchbinder Vilensky, of which Mr. D. Vilensky is a partner. The services were made under normal commercial terms and conditions.

(ii) Swiftel Communications Pty Ltd purchased \$313,555 (2002: \$144,419) in telecommunications goods and services from Wingside Nominees Pty Ltd trading as the KLM Group. Mr C. Gale had control of Wingside Nominees Pty Ltd as a director and shareholder of that company. Wingside Nominees Pty Ltd is in the business of data communications, telecommunications and electrical services and is contracted by Swiftel Communications Pty Ltd from time to time to install the infrastructure which the Company is using in its business. The purchases were made under normal commercial terms and conditions. Mr Gale relinquished control of Wingside Nominees Pty Ltd on 4 June 2003.

*(b) Directors equity holdings*

	<b>2003 Number</b>	<b>2002 Number</b>
Aggregate number of ordinary shares in Swiftel Limited held at balance date by directors and director-related entities	31,269,495	14,751,879
Aggregate number of options to subscribe for fully paid ordinary shares in Swiftel Limited held at balance date by directors and director-related entities	32,177,214	15,144,998

The following movements in directors' equity holdings occurred during the year:

- The directors acquired the following shares through participation in the non-renounceable rights issue – C Gale (5,646,667 shares), A Paul (3,762,950 shares), S Sassine (200,000 shares) and D Vilensky (30,215 shares).
- C Gale indirectly acquired 100,00 shares through an on-market purchase.
- D Vilensky disposed on an indirect holding of 748,116 shares upon resignation as a director in Biospace Investments Ltd.
- A Paul had an initial interest of 7,525,900 shares and 17,032,216 options upon appointment as a director.

All equity dealings with directors have been entered into on terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

# Swiftel Limited

## Notes to the Financial Statements

### For the year ended 30 June 2003

#### Note 27: Financial Instruments

##### (a) Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

	Weighted	Floating	Fixed Interest Rate Maturing		Non –interest bearing	Total
	Average		Interest Rate	Within 1 Year		
	Effective Interest Rate	2003		2003	2003	
	2003	2003	2003	2003	2003	2003
	%	\$	\$	\$	\$	\$
<b>Financial Assets</b>						
Cash at bank	4.80	257,409	80,000	-	3,778	341,187
Current receivables	-	-	-	-	853,833	853,833
Investments (unlisted shares)	-	-	-	-	-	-
<b>Total Financial Assets</b>		<b>257,409</b>	<b>80,000</b>	<b>-</b>	<b>857,611</b>	<b>1,195,020</b>

##### Financial Liabilities

Lease liabilities	7.53	-	629,761	327,665	-	957,426
Borrowings	3.90	-	56,228	-	-	56,228
Trade creditors and accruals	-	-	-	-	1,466,006	1,466,006
<b>Total Financial Liabilities</b>		<b>-</b>	<b>685,989</b>	<b>327,665</b>	<b>1,466,006</b>	<b>2,479,660</b>

	Weighted	Floating	Fixed Interest Rate Maturing		Non –interest bearing	Total
	Average		Interest Rate	Within 1 Year		
	Effective Interest Rate	2002		2002	2002	
	2002	2002	2002	2002	2002	2002
	%	\$	\$	\$	\$	\$
<b>Financial Assets</b>						
Cash at bank	4.93	961,202	-	-	-	961,202
Current receivables	-	-	-	-	410,401	410,401
Investments (unlisted shares)	-	-	-	-	59,364	59,364
Non-Current Receivables	4.52	-	80,200	-	-	80,200
<b>Total Financial Assets</b>		<b>961,202</b>	<b>80,200</b>	<b>-</b>	<b>469,765</b>	<b>1,511,167</b>
<b>Financial Liabilities</b>						
Lease Liabilities	5.81	-	355,137	267,624	-	622,761
Trade creditors and accruals	-	-	-	-	860,134	860,134
<b>Total Financial Liabilities</b>		<b>-</b>	<b>355,137</b>	<b>267,624</b>	<b>860,134</b>	<b>1,482,895</b>

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

**Note 27: Financial Instruments (cont'd)**

*Credit Risk*

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements. The company does not have any material credit risk exposure to any single debtor or group of debtors.

*Net Fair Values*

For all assets and other liabilities the net fair value approximates their carrying value, except for shares held in Platinum Australia Limited as detailed in Note 8 which are stated at cost. No financial assets and financial liabilities are readily traded on organised markets in standardised forms.

**Note 28: Subsequent Events**

There have not been any significant subsequent events after 30 June 2003, other than the placement of 14,000,000 ordinary shares, fully paid at an issue price of \$0.06 per share to raise \$840,000 and a commitment to grant 14,000,000 listed options to some of those shareholders, subject to shareholder approval in general meeting.

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

**Note 29: Segment reporting**

The consolidated entity's operating company is organised separately according to the nature of the products and services they provide, with each segment offering different products and serving different markets.

The ADSL segment provides broadband services to the residential and business market. The Communications segment provides data communication services to the corporate market.

Geographically, the consolidated entity operates in one segment, being the Australian market.

	<b>ADSL</b>		<b>Communications</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	\$	\$	\$	\$	\$	\$
<b>Revenue</b>						
Sales to customers outside the consolidated entity	413,357	-	3,447,188	1,799,410	3,860,545	1,799,410
Total segment revenue	<u>413,357</u>	<u>-</u>	<u>3,447,188</u>	<u>1,799,410</u>	<u>3,860,545</u>	<u>1,799,410</u>
Non-segment revenues						
Interest revenue					21,547	35,432
Profit on share trading					97,899	-
Other revenue					5,928	78,533
Total consolidated revenue					<u>3,985,919</u>	<u>1,913,375</u>
<b>Result</b>						
Segment result	<u>(325,729)</u>	<u>-</u>	<u>1,268,856</u>	<u>259,350</u>	943,127	259,350
Non-segment expenses						
Borrowing expense					(95,312)	(16,597)
Unallocated expenses					<u>(4,320,629)</u>	<u>(2,127,248)</u>
Consolidated entity loss from ordinary activities before income tax					(3,472,818)	(1,884,495)
Income tax expense					-	-
Consolidated entity loss from ordinary activities after income tax					(3,472,818)	(1,884,495)
Net (Profit)/loss attributable to outside equity interest					-	3,584
Net loss					<u>(3,472,818)</u>	<u>(1,880,911)</u>
<b>Assets</b>						
Segment assets	<u>333,550</u>	<u>-</u>	<u>4,320,170</u>	<u>3,405,524</u>	4,653,720	3,405,524
Non-segment assets						
Unallocated assets					230,350	2,989,550
Total Assets					<u>4,884,070</u>	<u>6,395,074</u>
<b>Liabilities</b>						
Segment liabilities	<u>12,000</u>	<u>-</u>	<u>1,274,223</u>	<u>923,077</u>	1,286,223	923,077
Non-segment liabilities						
Finance lease liability					92,586	150,354
Non-allocated liabilities					<u>1,536,214</u>	<u>682,200</u>
Total Liabilities					<u>2,915,023</u>	<u>1,755,631</u>

**Swiftel Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2003**

**Note 30: Employee Entitlements**

**Employee Option Scheme**

An employee option scheme has been established where certain members of staff of the consolidated entity are issued with options over the ordinary shares of Swiftel Limited. The options, issued for nil consideration are issued in accordance with performance guidelines established by the directors of Swiftel Limited. The minimum period that an employee must work prior to being considered for employee options is 12 months. The options are issued in three tranches and have a three year life, they are exercisable at the commencement of the year in which the tranche has been issued. The options cannot be transferred and will not be quoted on the ASX. There are currently 6 employees eligible for the employee option scheme:

	2003		2002	
	Number of Options	Average exercise price	Number of Options	Average exercise price
Balance at beginning of year	1,731,313	31.05 cents	1,000,000	40 cents
Granted	50,000	10 cents	409,413	10 cents
Granted	301,560	15 cents	321,900	30 cents
Exercised	-	-	-	-
Lapsed	(321,900)	30 cents	-	-
Balance at end of year	1,760,973	27.89 cents	1,731,313	31.05 cents
Exercisable at end of year	1,760,973	27.89 cents	1,731,313	31.05 cents

The following table summarises information about options outstanding and exercisable at 1 July 2002:

Grant Date	No. Of Options	Vesting Date	Exercise price	Expiry Date
October 2000	1,000,000	October 2000	40 cents	3 October 2005
February 2002	321,900	February 2002	30 cents	1 August 2003
15 May 2002	409,413	1 January 2002	10 cents	1 January 2005
<b>Total</b>	<b>1,731,313</b>		<b>31.05 cents</b>	

The following table summarises information about options outstanding and exercisable at 30 June 2003:

Grant Date	No. Of Options	Vesting Date	Exercise price	Expiry Date
October 2000	1,000,000	October 2000	40 cents	3 October 2005
February 2002	321,900	February 2002	30 cents	1 August 2003
15 May 2002	409,413	1 January 2002	10 cents	1 January 2005
1 January 2003	50,000	1 January 2003	10 cents	1 January 2005
1 January 2003	301,560	1 January 2003	15 cents	1 January 2005
<b>Total</b>	<b>2,082,873</b>		<b>28.22 cents</b>	

## **Swiftel Limited Directors' Declaration**

The directors of the company declare that:

1. the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
  - (b) complying with Accounting Standards and Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the company and the consolidated entity will be able to pay their debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

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**Christopher Gale**  
**Director**

**Dated this 30th day of September 2003**

# Independent audit report to members of Swiftel Limited

## Scope

### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Swiftel Limited (the company) and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgment of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

## Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit of the

financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

**Audit opinion**

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

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of Swiftel Limited and the consolidated entity at 30 June 2003 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

**Inherent Uncertainty Regarding Going Concern**

Without qualification to the opinion expressed above, attention is drawn to the following matter:

As a result of the matters disclosed in Note 1(a) of the financial statements, there is significant uncertainty whether Swiftel Limited and the consolidated entity will be able to continue as going concerns and, therefore, whether they will be able to realise their assets and extinguish their liabilities in the normal course of business at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities, that might be necessary should the company of the consolidated entity not be able to continue as going concerns.

Ernst & Young

G A Buckingham  
Partner  
Perth  
Date: xx September 2003

