# 2001 annual report

QUESTE

COMMUNICATIONS LTD

ACN 081 688 164

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## CORPORATE DIRECTORY

### BOARD

| | |
|---|---|
| Farooq Khan | (Executive Chairman) |
| Russell Grewe | (Chief Technology Officer) |
| Yaqoob Khan | (Executive Director) |
| Brett M McKeon | (Non-Executive Director) |
| Malcolm S Watkins | (Non-Executive Director) |
| Bradley I McGougan | (Non-Executive Director) |
| Michael J van Rens | (Non-Executive Director) |
| Azhar Chaudhri | (Non-Executive Director) |

### COMPANY SECRETARY

Victor Ho

### PRINCIPAL & REGISTERED OFFICE

Level 14, The Forrest Centre
221 St Georges Terrace
Perth Western Australia 6000

Telephone: +61 8 9214 9777 Facsimile: +61 8 9322 1515
Email: info@queste.com.au Website: www.queste.com.au

### SHARE REGISTRY

Advanced Share Registry Services
Level 7, 200 Adelaide Terrace
Perth Western Australia 6000

Telephone: +61 8 9221 7288 Facsimile: +61 8 9221 7869

### STOCK EXCHANGE

Australian Stock Exchange
Perth, Western Australia

### ASX CODE

QUE

### AUDITORS

Deloitte Touche Tohmatsu
Level 16, Central Park
152-158 St Georges Terrace
Perth Western Australia 6000

### BANKER

National Australia Bank
Level 13, 50 St Georges Terrace
Perth Western Australia 6000

# CHAIRMAN'S REVIEW

**Dear Shareholder,**

The Board would like to thank existing and new shareholders for their support of the Company throughout the year.

The continued adverse market sentiment towards Internet and telecommunications related stocks over the last year has had a negative effect on the Company's share price, with shares in the Company trading at a significant discount to cash backing and Net Tangible Assets (NTA) per share. However, the Company's position remains strong, with a cash reserve of $3.63 Million, investments and property valued at approximately $1.0 Million and with the Company holding no debt save for current trade creditors and accrued employee entitlements.

With the majority of development of the Company's Voice over Internet Protocol (VoIP) VoiceNet System completed last year, the Company has this year focussed on pursuing commercial opportunities for the sale and/or licensing of this technology. I am very pleased to announce that Central Exchange Limited, in which the Company is a major shareholder, this year commenced operation of its commercial telecommunications network using the Company's VoiceNet System. Central Exchange is a licensed telecommunications carrier and is using the VoiceNet System to offer customers in Perth, Western Australia, low cost national and international calls.

The use of the VoiceNet System in a commercial environment is a significant milestone for the Company as the Board believes that a live commercial network will assist the Company with existing and future commercial opportunities to exploit the VoiceNet System technology. The Central Exchange network is an important showcase for the VoiceNet System, offering pre paid and post paid telephony services with a fully integrated, in-house developed customer-care and billing system and network management facilities. The Central Exchange network has shown exceptional stability and excellent voice quality, highlighting the inherent reliability and technological sophistication of the Company's VoiceNet System together with its ease of use and low maintenance requirements.

In addition to licensing the VoiceNet System to Central Exchange, discussions have been held with a number of Australian telecommunications carriers and service providers with regard to potentially selling or licensing VoiceNet Systems. In addition, the Company has appointed a technology marketing firm to conduct a promotional campaign in the United States and other overseas markets, where the Board believes opportunities exist for further commercial exploitation of the VoiceNet System VoIP technology. Organisations targeted include telecommunications carriers, service providers, communications equipment resellers and large enterprises which are building their own private voice communications networks. Whilst there is no question that the level of active interest in the VoiceNet System has suffered as a result of the current depressed state of the telecommunications industry, the Board is of the view that the inevitable migration of voice telephony from traditional circuit switched networks to packet switched Internet Protocol networks opens up potential for the VoiceNet System; it is this industry change which the Company is ideally placed to capitalise on.

As far as the Company's plans to roll out its own international VoIP telecommunications network are concerned, the Board believes that given the current state of telecommunications markets worldwide and the difficulty in raising additional capital in the current climate, it is not appropriate to pursue this business model further at this stage.

In addition to the ongoing development and commercial exploitation of the VoiceNet System technology, the Company has been evaluating a number of wide ranging investment opportunities to add value to the Company. The Company will continue to investigate such opportunities and will keep shareholders informed of all significant developments.

During the year the Company derived technical service fee revenue of $727,083 in consideration of technical services provided to Central Exchange in the development and roll out of its telecommunications network. At the election of the board of Central Exchange and in accordance with the agreement in place between the Company and Central Exchange, the Company was issued with 7,974,817 ordinary shares in Central Exchange in lieu of technical service fees payable between 1 October 2000 and 16 March 2001. Following a mutually agreed suspension of the fees from 16 March 2001 to 30 June 2001, a further 5,528,055 ordinary shares have since been issued (post 30 June 2001) to the Company in lieu of fees. The Company now owns 22,148,755 ordinary shares in Central Exchange, representing approximately 31.44% of its issued ordinary share capital.

Of obvious concern to shareholders is the Company's current low market valuation, which means that many shareholders (581 out of a total of 914 at 21 September 2001) now hold "unmarketable" parcels of shares (a parcel worth less than $500). One option open to the Company and being considered by the Board is to consolidate the Company's share register by reducing the number of holders of unmarketable parcels through a variety of mechanisms permitted by the Corporations Act 2001 and through the Constitution of the Company (which it is proposed to update at the Annual General Meeting of the Company to reflect, amongst other matters, the ability to deal with unmarketable parcels and changes to the Corporations Act 2001 and the listing rules of the ASX since the last constitution was adopted). The Board will advise shareholders in due course regarding any action to be taken in this regard.

Whilst the current state of the telecommunications industry continues to present significant challenges for the Company, the Board's efforts will be focused on maximising a return on the investment made in the Company's VoiceNet System VoIP technology, preserving the Company's existing cash and tangible assets and actively pursuing other commercial opportunities for such assets. I look forward to an exciting and rewarding year ahead for the Company and am grateful for the continued support of all shareholders.

Farooq Khan
Chairman

# VOICENET SYSTEM VOIP TECHNOLOGY

The Company's VoiceNet System VoIP architecture delivers an integrated suite of Internet telephony products and solutions for large enterprises, established telecom carriers, Internet Service Providers (ISP's) and start-up telecom carriers. Using packet switched technology rather than traditional circuit switched mechanisms for voice transmission, the VoiceNet System architecture offers a real and cost-effective alternative to routing long distance calls over the public switched telephony network (PSTN).

VoiceNet System networks consist of multiple **VoiceNet Gateways** linked together over the public Internet or through dedicated data circuits. A centralised **VoiceNet ITS Gatekeeper** acts as an intelligent network controller and manager. VoiceNet System networks can interconnect with other VoIP and PSTN networks, at national and international levels, allowing users of the VoiceNet System network to call to, and be called from, anywhere in the world.

The capacity of each VoiceNet Gateway can be easily expanded and multiple VoiceNet Gateways can be stacked together to build large national and international networks.

The VoiceNet System includes a range of customer care and billing features for the network operator. Network monitoring and management tools allow the operator to monitor traffic patterns and the status of every network element and to ensure that appropriate quality of service levels are achieved.

VoiceNet System solutions are designed primarily for:

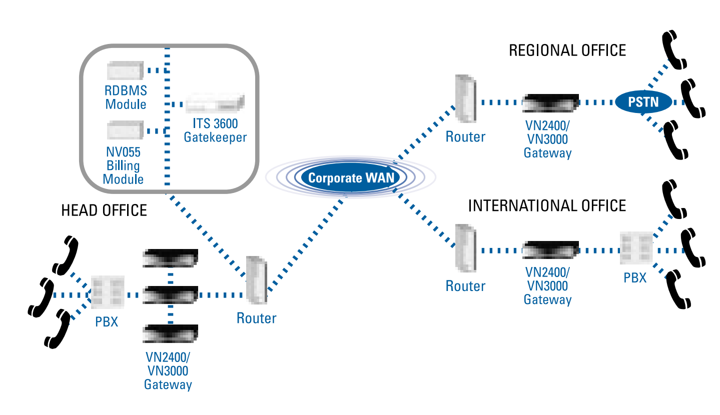
### Enterprises

The VoiceNet System solution offers corporate and government enterprises the ability to make inter-office calls free of traditional long distance call charges and to reduce their other long distance and international call costs.

Enterprises can create VoIP based corporate Virtual Private Networks (VPNs) by connecting VoiceNet System Gateways to PBXs in their major national and international offices. These VoiceNet System Gateways are partially preconfigured prior to shipment and are simple to install. Telephone calls between these offices are routed over an enterprise's existing private lease lines or over the public Internet, completely by-passing the traditional PSTN.

The enterprise's VoiceNet System corporate VPN can be utilised to route other non-inter office long distance or international calls to the office PBX nearest to the call destination; the call can then "hop-off" the corporate VPN and into the PSTN for local call termination. The cost of the long distance or international call is thereby effectively reduced to the cost of a local call termination.

Typical Enterprise VoiceNet System Deployment



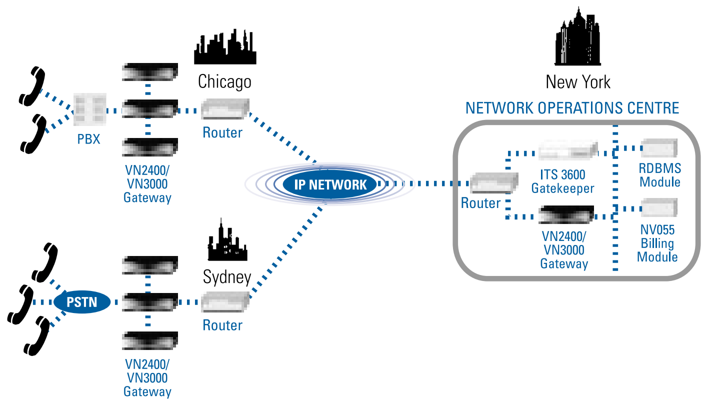

### Telecom Carriers

The VoiceNet System solution offers telecom carriers an attractive migration path from circuit switched to packet-switched IP based networks for their voice traffic, with support for post-paid, pre-paid and calling card services.

Carriers can interface the VoiceNet System VoIP technology with their existing PSTN infrastructure. VoiceNet Gateways can be linked together using a combination of meshed dedicated circuits and the public Internet. The modular VoiceNet System architecture means that network capacity can be easily and rapidly expanded to handle growth; additional VoiceNet Gateways can be "stacked" at existing POPs to increase local capacity, whilst additional VoiceNet Gateways can be easily deployed at other POPs to increase geographic coverage. A range of network management and customer care and billing tools is also available to allow a network operator to monitor traffic patterns and the status of every network element and to ensure that appropriate quality of service levels are achieved.

### Internet Service Providers (ISPs) and New Market Entrants

Offering voice services in addition to Internet access allows ISPs the ability to increase their customer value proposition, Typical Telecom Carrier VoiceNet System Deployment




improve customer loyalty and gain additional revenue streams. Utilising spare capacity on their existing broadband Internet data connections for carrying VoIP traffic, ISPs can potentially reduce their operating costs and offer customers bundled voice and data services.

For new telecom carriers, the VoiceNet System provides the opportunity to rapidly deploy a voice network and offer packet switched calls for minimal up-front investment. The VoiceNet System includes various management systems including call analysis, traffic reports, tariff reporting, invoice generation, call routing definition and customer account and credit management databases required to operate a complete telephony business.

## BENEFITS OF VOICENET SYSTEM

VoiceNet Systems offer major benefits over networks based upon traditional circuit switched technology and over other VoIP based systems:

### Free Inter-office Calls

With their own VoiceNet System corporate private network, enterprises can by-pass public telephone networks and make inter-office calls, nationally and internationally, free of traditional long distance call charges.

### Leverage Investment in Existing Systems

VoiceNet Systems integrate easily with an enterprise's existing PBX equipment - there is no need to write-off investments already made in current telephone systems or to buy expensive new IP telephones.

### Lower Call Costs

Using sophisticated voice-compression technology and packet switching, the VoiceNet System architecture makes more cost-effective use of bandwidth than traditional circuit switching. This results in reductions in the overall cost of long distance calls.

### Reduced Capital Investment

The VoiceNet System architecture allows network solutions to be deployed for less than the cost of traditional circuit switched networks. VoiceNet System products comprise essentially the Company's proprietary VoIP software and "off-the-shelf" hardware components such as industrial grade PC-based servers, third party digital signal processing (DSP) cards and an industry standard operating system.

### Flexibility and Scalability

The VoiceNet System has the flexibility to both integrate seamlessly with existing telephony systems to build economical private networks and to build large scale, robust public access networks.

### Centralised Management

For large networks the VoiceNet System gatekeeper allows the administrator to control the network from a single point and provides for simplified billing and high levels of security.

### Ease of Deployment

All VoiceNet Systems Internet telephony products are partially pre-configured on shipment, which, together with automatic internal network signalling, system interoperability and remote configuration, allows networks to be rapidly deployed on a global basis.

Further details about the Company's VoiceNet System VoIP architecture, solutions and suite of Internet telephony products are described on the Queste Communications website at **www.queste.com.au.**

# DIRECTORS' REPORT

The Directors present their report on Queste Communications Limited ("Company") and its controlled entities (the "Consolidated Entity") for the year ended 30 June 2001 ("Balance Date").

## PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year were the continuing refinement of its VoiceNet System VoIP technology, the provision of technical services to Central Exchange Ltd in relation to the establishment by Central Exchange Ltd of a telecommunication network in Australia utilising the Company's VoiceNet System VoIP technology, and the pursuit of opportunities to commercially exploit the Company's VoiceNet System VoIP technology.

## OPERATING RESULTS

| | Consolidated Entity | Company | |
|---|---|---|---|
| | 2001 | 2001 | 2000 |
| | $ | $ | $ |
| Net loss | (912,728) | (1,118,539) | (453,439) |

## REVIEW OF OPERATIONS

### 1. Commercial Opportunities for VoIP Technology

The Company has established itself as a supplier of Voice over Internet Protocol ("VoIP") products, solutions and services to Australian Stock Exchange ("ASX") listed and licenced carrier, Central Exchange Ltd ("Central Exchange") and is keen to pursue further commercial opportunities for its VoiceNet System VoIP technology in Australia and internationally.

The Company is currently actively pursuing alternate means of commercially exploiting its VoiceNet System VoIP technology. These endeavours currently include the licencing of the technology to participants in overseas markets similar to the licencing arrangement with Central Exchange, the formation of joint venture projects to establish domestic networks or VoIP gateways in suitable countries, which will eventually interconnect to form an international VoiceNet System based VoIP telecommunications network, or an outright sale of the VoiceNet System VoIP technology to established or new entrants in the worldwide telecommunications industry seeking to establishing carrier grade VoIP networks or provide corporate Virtual Private Network ("VPN") Internet telephony solutions.

To this end, the Company has recently engaged an Australian based company that specialises in world-wide marketing, management and capital raising activities for high technology organisations to consider all commercial opportunities for the VoiceNet System VoIP technology with local and overseas parties. The Company is also currently in discussions with several other parties with respect to providing a similar marketing role for the commercial exploitation of the VoiceNet System VoIP technology.

### 2. International VoIP Telecommunications Network

The Company has deferred its plans to directly roll-out an international VoIP telecommunications network based on its VoiceNet System technology interconnecting the Central Exchange network to other domestic networks or VoIP gateways in other suitable countries.

This decision was reached after deliberation over the extent of the expected general capital and operating expenditure associated with the roll-out and maintenance of an international telecommunications network. This is of particular importance given that a significant portion of such expenditure is expected to be denominated in US dollars. The Directors also considered the current Australia dollar cash reserves of the Company, the general difficulty of capital raising in the current economic and financial climate, particularly in the telecommunications industry, and the current lack of interest and support generally in the worldwide telecommunications industry by investors.

However, the Company is still committed to the ongoing refinement and promotion of its VoiceNet System VoIP technology, which provides an integrated suite of carrier grade Internet telephony solutions for new entrants into the telecommunications industry or for corporate VPNs.

### 3. Central Exchange ltd

Central Exchange, a licenced telecommunications carrier, has been granted a 14 year non-exclusive Australian licence to the Company's VoiceNet System VoIP technology. Furthermore, the Company has been assisting Central Exchange in establishing an Australian telecommunications network utilising the VoiceNet System VoIP technology, pursuant to a technical services agreement.

The Company currently owns 22,148,755 ordinary shares in Central Exchange representing approximately 31.44% of its issued ordinary share capital.

#### 3.1. Central Exchange Telecommunications Network

Central Exchange announced, on 8 August 2001, the commercial launch of its telecommunications network utilising the VoiceNet System VoIP technology licenced from the Company.

Full details about the Central Exchange telecommunication services offered are described on the Central Exchange website at **www.centralexchange.com.au.**

Central Exchange has advised the Company of the following matters in relation to the Central Exchange telecommunications network:

(1) The Central Exchange network has been configured to initially service Perth metropolitan clients;

(2) Central Exchange's broad objectives with this network are:

(i) To create the first network point of presence ("PoP") from Central Exchange's Perth base of operations;

(ii) To develop a strong repeat business client base to assist in the identification of locations where further PoPs may be established. Such targeted expansion is likely to further improve the competitive advantage of the Central Exchange network utilising the Company's VoiceNet System VoIP technology;

(iii) By focusing initially in Perth where the current Central Exchange management team is based, to refine its sales and marketing strategies for implementation in other metropolitan and regional markets as the Central Exchange network expands without incurring significant costs that would otherwise occur through the immediate creation of a large number of PoPs and the consequent launch of a national sales and marketing campaign to exploit such PoPs;

(3) Central Exchange will focus on joint sales, marketing and co-branding opportunities with established organisations with large client or membership bases and consider a full national launch when a clear revenue base for the Central Exchange network in Perth is established;

(4) The Central Exchange network can be scaled-up relatively easily and quickly to service clients in other capital cities or regional centres;

(5) Central Exchange will also continue to pursue opportunities with other players in the telecommunications industry to accelerate the development of the Central Exchange network client base by way of acquisition or the integration of third party networks into the Central Exchange network;

(6) Some of the features of the Central Exchange network are as follows:

- Low per minute rates 24 hours a day 7 days a week - customers do not have to be on an expensive monthly plan to access Central Exchange's commercially competitive rates;

- Even cheaper rates are offered to selected international cities - Central Exchange will be one of the few carriers in Australia to pass on the benefits of reduced costs to such destinations directly to its customers;

- No monthly rentals, minimum spends or term contracts - customers pay only for the calls they make;

- Maximum flexibility - customers can access the Central Exchange network from any Perth metropolitan telephone or public payphone. No changes are required to a customer's existing telephone line;

- Customers can join online or download an application form and join by facsimile or mail;

- Customers will be allocated a Personal Identification Number (PIN) and be invited to register their telephone number on application (if Caller Line Identification (CLI) is available) to remove the necessity to enter a PIN;

- Statements of Account will be emailed monthly and are payable by automatic credit card debits - this will maintain Central Exchange's competitive cost and price advantage;

The Company also reached agreement with Central Exchange in June 2001 for Perth based shareholders of the Company to join Perth based Central Exchange shareholders as "founding" customers of the Central Exchange telecommunications network. Within a few days after the network launch on 8 August 2001, approximately 500 Queste Communications Ltd shareholders received personal invitations to use the Central Exchange network for free calls (up to a maximum credit value of five dollars) during a 30 day offer period and encouraged to register as continuing "founding" clients to receive additional special benefits.

### 3.2. Technical Services Fees

During the financial year, the Company derived $727,083 technical service fee revenues from Central Exchange.

Such revenues were derived pursuant to a technical services agreement whereby Central Exchange is required to pay the Company $1,000,000.00 per annum (indexed for inflation after the first 12 months) for the provision by the Company of 3,000 hours per annum of technical services to assist Central Exchange to establish a telecommunications network utilising the licenced VoiceNet System VoIP technology. The fee is payable by monthly installments (the "Monthly Fee") and the first payment commenced in November 1999.

The Monthly Fee may, at Central Exchange's election, be paid in any month by the issue of fully paid ordinary shares in Central Exchange, the price of such shares to be calculated at 80% of the weighted average price for the 4 week trading period on the ASX immediately preceding the due date for payment of the Monthly Fee to which the issue of shares relates.

At the Central Exchange Annual General Meeting held on 13 December 2000, shareholders passed relevant resolutions permitting the Board of Central Exchange to exercise the election pursuant to the technical services agreement to issue shares to the Company, in lieu of the Monthly Fee otherwise payable by cash. Pursuant to the Corporations Act 2001, Central Exchange may only issue shares to the Company in the 15 month period after shareholder approval on 13 December 2000.

The Board of Central Exchange has subsequently exercised this election under the technical services agreement to issue 7,974,817 ordinary shares in Central Exchange to the Company in satisfaction of Monthly Fees totalling $472,916.66 payable to the Company for services rendered from 1 October 2000 to 16 March 2001.

The Company reached agreement with Central Exchange to temporarily suspend (without accrual) the payment of Monthly Fees for the provision of technical services between 16 March 2001 to 30 June 2001. The Board notes (and which Central Exchange acknowledges in their June 2001 Quarterly Report dated 30 July 2001) that the Company has continued to supply limited technical services to Central Exchange since 16 March 2001 for which no technical service fees have been rendered.

The Company has resumed (post Balance Date) the provision of technical services to Central Exchange leading up to the commercial launch of the Central Exchange network on 8 August 2001. The Company reached an agreement with Central Exchange to receive a fixed $100,000 for these partial technical services rendered and to be rendered in July, August and September 2001. The Board of Central Exchange has subsequently exercised their election under the technical services agreement to issue 5,528,055 ordinary shares to the Company in lieu of $100,000 cash technical service fees payable. Central Exchange issued the shares on 28 August 2001.

The Company recognises the need for Central Exchange to preserve its cash reserves and acknowledges that the Central Exchange Board will base all decisions with respect to the exercise of an election to issue shares in lieu of cash Monthly Fees to the Company on, inter alia, the current and projected cash reserves of Central Exchange, Central Exchange's expected capital commitments and the price of Central Exchange shares, on a month to month basis.

## 4. Corporate

### 4.1. Cancellation and Issue of Central Exchange Options

Under the VoiceNet System VoIP technology licence agreement between Central Exchange and the Company, Central Exchange, inter alia, issued 11,500,000 options (at one cent per option) to the Company (each to take up one ordinary share in Central Exchange at an exercise price of 20 cents per share, on or before 31 December 2000).

As the share price of Central Exchange at the relevant time was considerably less than the exercise price of 20 cents, the Company advised Central Exchange that it was unlikely to exercise the options by the exercise date of 31 December 2000 and proposed to Central Exchange that it issue the Company 11,500,000 new options, at an exercise price of 20 cents on or before one year from the issue date, for a total consideration of $9,000 and the cancellation of the 31 December 2000 options, in order to secure an avenue for future funds to be invested in Central Exchange by the Company.

At the Central Exchange Annual General Meeting held on 13 December 2000, shareholders (with the Company abstaining from voting) passed relevant resolutions permitting the issue of such 11,500,000 options in Central Exchange to the Company (each to take up one ordinary share in Central Exchange at an exercise price of 20 cents per share, on or before 20 December 2001).

The Company notes that as the exercise price of such 20 December 2001 options is well above the current market price of Central Exchange ordinary shares, the options are unlikely to be exercised by the Company on or before the expiry date of 20 December 2001.

### 4.2. Expiry of 1 August 2000 Options

During the year, 1,641,786 options, each to take up one ordinary share in the Company, were exercised at an exercise price of 35 cents per option on or before the expiry date of 1 August 2000. These options were issued pursuant to the Company's prospectus of March 1999 at a price of 12.5 cents per option. In summary, of the total of 17,094,094 such options issued:

(i) 10,038,831 options were unexercised by the expiry date;

(ii) 1,641,786 were exercised at 35 cents per option and converted into fully paid ordinary shares in the 30 June 2001 financial year raising $574,625;

(iii) 10,000 were exercised at 35 cents per option and converted into fully paid ordinary shares in the 30 June 2000 financial year raising $3,500;

(iv) 954,544 were exercised at 25 cents per option and converted into fully paid ordinary shares in the 30 June 2000 financial year raising $238,636;

(v) 4,448,933 were exercised at 25 cents per option and converted into fully paid ordinary shares in the 30 June 1999 financial year raising $1,112,233.

### 4.3. Proposed Issue of 1 August 2001 Options

Shareholders failed to approve Resolution 9 at the Company's Annual General Meeting held on 30 November 2000, which proposed an issue of 17,094,094 options to subscribe for ordinary shares in the Company (at an exercise price of 35 cents, on or before 1 August 2001).

### 4.4. Unmarketable Parcels

The Company notes that based on the closing price on the Australian Stock Exchange ("ASX") on 21 September 2001 for the Company's fully paid ordinary shares of $0.035 per share, there are 581 (out of a total of 914) shareholders holding less than a marketable parcel of shares. Pursuant to the ASX business rules, a marketable parcel is a parcel of shares worth not less than $500.

Such holders of unmarketable parcels hold, in aggregate, 3,432,264 fully paid ordinary shares, or 11.90% of the Company's issued fully paid ordinary share capital.

The Directors are currently reviewing various mechanisms in which the Company's share register may be consolidated to reduce the number of holders of unmarketable parcels, including the following options, subject to the Corporations Act 2001 and the ASX Listing Rules:

(i) Amending the Company's constitution to allow the Company to sell unmarketable parcels as agent on behalf of such holders, in accordance with defined rules and procedures as to, inter alia, price, forwarding sale proceeds and prior notice(s) to affected holders of such unmarketable parcels;

(ii) Undertaking one or more of the capital reduction or company buy-back procedures permitted under the Corporations Act 2001, including:

   (a) selective reduction of capital with respect to holders of unmarketable parcels, which requires shareholder approval;

   (b) minimum holding buy-back of holders of unmarketable parcels, which does not require shareholder approval;

   (c) on market buy-back of 10% of the smallest number of voting shares in the last 12 months, which does not require shareholder approval.

The Company may undertake one or more of the above options concurrently.

The Directors expect to propose amendments to the Company's constitution at the upcoming Annual General Meeting (to be held no later than 30 November 2001 unless extended by the Australian Securities & Investments Commission) to permit the Company to implement the mechanism outlined in (i) above, as well as any other mechanism to assist the Company to consolidate its share register.

## SECURITIES IN THE COMPANY

At the date of this report, there are the following numbers of the Company's securities on issue:

(i) 28,847,363 listed fully paid ordinary shares;

(ii) 5,000,000 unlisted options, each to take up one fully paid ordinary share in the Company at an exercise price of 20 cents per option, on or before 21 July 2003;

(iii) 20,000,000 unlisted partly paid ordinary shares, each paid to one cent with 19 cents per partly paid ordinary share outstanding.

The Australia Stock Exchange confirmed the release from escrow of the following securities in the Company on 11 November 2000:

(i) 9,000,000 fully paid ordinary shares;

(ii) 5,000,000 unlisted options, each to take up one fully paid ordinary share in the Company at an exercise price of 20 cents per option, on or before 21 July 2003;

(iii) 20,000,000 unlisted partly paid ordinary shares, each paid to one cent with 19 cents per partly paid ordinary share outstanding.

Other than the issue of 1,641,786 fully paid ordinary shares pursuant to the exercise of the Company's 1 August 2000 options referred to in 4.2 above, there were no securities issued or granted by the Company during or since the financial year.

## EARNINGS PER SHARE

| | Consolidated Entity 2001 | Company 2000 |
|---|---|---|
| Basic earnings per share (cents) | (3.07) | (1.61) |

Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share

| | | |
|---|---|---|
| | 29,710,584 | 28,170,749 |

The Company's 20,000,0000 partly paid ordinary shares, to the extent that they have been paid (one cent per share), have been included in the determination of the basic earnings per share.

The Company's options and partly paid shares, to the extent of the balance of the call (19 cents per share), have not been included in the determination of basic earnings per share. These securities are included in the determination of diluted earnings per share on the basis that each option will convert to one ordinary share and each partly paid share will become fully paid. Diluted earnings per share is not materially different from basic earnings per share and therefore, has not been disclosed.

## NET TANGIBLE ASSET BACKING

| | Consolidated Entity 2001 | Company 2000 |
|---|---|---|
| Net assets | $6,120,707 | $6,457,560 |
| Less intangible assets: | | |
| VoiceNet VoIP technology | ($1,300,000) | ($1,700,000) |
| Net tangible assets of the Consolidated Entity | $4,820,707 | $4,757,560 |
| Issued ordinary share capital base of the Company: | | |
| Fully paid ordinary shares | 28,847,363 | 27,205,577 |
| Portion of 20,000,000 partly paid ordinary shares (representing the extent to which such shares have been paid, being one cent per share with a balance of the call of 19 cents per share) | 1,000,000 | 1,000,000 |
| Adjusted issued ordinary share capital base | 29,847,363 | 28,205,577 |
| Net tangible asset backing per issued ordinary share as at balance date (cents) | **16.15** | **16.87** |

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There was no significant change in the state of affairs of the Consolidated Entity during the financial year other than that referred to in this report or the financial statements, or notes thereto.

## FUTURE DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the Consolidated Entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Consolidated Entity. Accordingly, this information has not been disclosed in this report.

## DIVIDENDS

No dividends have been paid or declared during the financial year nor have the Directors recommended that any dividends be paid.

## EARLY ADOPTION OF ACCOUNTING STANDARD AASB 1041

The Directors have elected under section 334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 1041 "Revaluation of Non-Current Assets" for this financial year ended 30 June 2001, even though the Standard is not required to be applied until annual reporting periods ending on or after 30 September 2001.

## DIRECTORS

The names and particulars of all Directors in office during and since the financial year are:

### 1. Farooq Khan

Chairman and Managing Director

Age 39

Mr Khan has successfully founded a number of companies in the Internet, pharmaceutical and cosmetics sectors, including a number of successful IPOs in Australia in the technology sector. Mr Khan holds a Bachelor of Jurisprudence and Bachelor of Law degree from the University of Western Australia. After practicing for a number of years, principally in the field of corporate law, Mr Khan left the legal profession to form the Company, and later, Fast Scout Ltd, an ASX listed Internet portal technology company. Mr Khan is also the Chairman and Managing Director of ASX listed Central Exchange Ltd and brings considerable experience in commercial law and corporate management and administration to the Company.

### 2. Russell Grewe

Chief Technology Officer

Aged 39

Mr Grewe was responsible for leading the development team that created the Company's VoIP technology - the VoiceNet System. As the Chief Technology Officer of the Company, Mr Grewe is responsible for all aspects of technical development and innovation of the Company's VoIP products and solutions. Mr Grewe is based at the Company's United States office where all major research and ongoing development of the Company's products is completed.

Mr Grewe holds Bachelor and Master of Science degrees in Computer Engineering and has over 15 years experience in the data-communications and networking industries specialising in software architecture design and programming. He has held positions ranging from project development engineering to senior corporate management. Over the course of his career, Mr Grewe has become adept at bringing together a number of computing disciplines in order to deliver timely products to new markets. Mr Grewe is also an Executive Director of ASX listed Fast Scout Ltd.

### 3. Yaqoob Khan

Executive Director

Age 36

Mr Khan holds a Bachelor of Commerce degree from the University of Western Australia and a Master of Industrial Administration degree from Carnegie Mellon University, Pittsburgh, Pennsylvania, USA. After working for several years in the Australian Taxation Office, Mr Khan completed his postgraduate Masters degree and commenced work with an overseas company as a senior executive responsible for product marketing, costing systems and production management. Mr Khan is also a Director of ASX listed Central Exchange Ltd and Fast Scout Ltd. Mr Khan brings considerable international experience in key aspects of corporate finance, production and marketing.

### 4. Brett McKeon

Non-Executive Director

Age 37

Mr McKeon has practiced for the past 15 years in the financial services industry and is the Founder and Managing Director of the Australian Finance Group ("AFG"), a leading financial services organisation involved in the arrangement, provision, negotiation and settlement of finance facilities for clients throughout

Australia in excess of several billion dollars per year. Mr McKeon is also a Director of ASX listed Central Exchange Ltd. Mr McKeon has extensive contacts both in Australia and internationally with large financial institutions and institutional investors and brings considerable experience in financial management and administration to the Company.

**5. Azhar Chaudhri**

Non Executive Director

Age 39

Mr Chaudhri holds a Bachelor of Science degree in Maths and Physics and a Masters degree in Economics. He has also undertaken postgraduate computer studies in the United Kingdom. Mr Chaudhri has considerable expertise in computer systems, analysis and design and advanced programming experience, particularly with respect to business and information technology systems and data base computing. In particular Mr Chaudhri has formed and led software development teams creating integrated database and management information systems for utilities, local government land tax departments, hospitals, libraries and oil terminals. Mr Chaudhri is also an Executive Director of Fast Scout Ltd.

**6. Malcolm Watkins**

Non Executive Director

Age 37

Mr Watkins is also a Director of AFG. Mr Watkins is responsible for AFG's technology development programs, electronic delivery systems and national marketing operations. He has held senior management positions within industries ranging from horticulture through to computer equipment. Mr Watkins currently sits on 8 company boards and brings over 18 years experience in company product/quality control, consumer delivery systems and strategic marketing.

**7. Michael Van Rens**

Non Executive Director

Age 47

Mr van Rens is a founding Director of the Integrated Financial Group in Western Australia, a leading financial services company and part owners of the national financial services dealer group, Australian Financial Securities Pty Ltd. Mr van Rens also holds board positions with Financial Resources Ltd, a leasing finance company, Pneumatic Systems Australia Pty Ltd, a group providing innovative technology for hose, tube and pipe maintenance industries, and European Goldfields Ltd, a Canadian listed gold exploration company. Mr van Rens brings an extensive marketing, sales and investment background to the Company, developed over the last 16 years in the financial services industry.

**8. Bradley McGougan**

Non Executive Director

Age 45

Mr McGougan has been involved in the Life and General Insurance industry for over 20 years having worked with the AMP Society and AGC (Insurances) Ltd. Mr McGougan is also a Director of AFG and is responsible for integrating and promoting AFG products and services to the Life Insurance, Financial Planning and Accounting professions.

At the Balance Date, Azhar Chaudhri, Russell Grewe and Yaqoob Khan were resident overseas.

## DIRECTORS' MEETINGS

During the year, the Company held 18 meetings of Directors (including Directors' Circulatory Resolutions). The attendance of the Directors at such meetings were:

| Name of Director | Meetings Attended | Maximum Possible Meetings |
|---|---|---|
| F Khan | 17 | 17 |
| R Grewe | 10 | 18 |
| Y Khan | 13 | 17 |
| B McKeon | 17 | 17 |
| M Watkins | 18 | 18 |
| B McGougan | 17 | 18 |
| M van Rens | 13 | 18 |
| A Chaudhri | 11 | 18 |

There were no meetings of committees of the Board.

Messrs F Khan, B McKeon and Y Khan abstained from voting on one Directors Circulatory Resolution as the subject matter related to Central Exchange Ltd, of which all are also Directors.

## DIRECTORS' RELEVANT INTEREST

The relevant interest of each Director in the issued securities of the Company at the date of this report is as follows:

| Name of Director | Fully Paid Ordinary Shares | Partly Paid Ordinary Shares | 21 July 2003 Options |
|---|---|---|---|
| F Khan | 5,013,540 | 16,000,000 | 3,240,000 |
| R Grewe | 2,500,000 | - | - |
| Y Khan | 1,844,540 | - | 360,000 |
| B McKeon | 2,216,540 | 4,000,000 | 300,000 |
| M Watkins | 2,216,540 | 4,000,000 | 300,000 |
| B McGougan | 2,216,540 | 4,000,000 | 300,000 |
| M van Rens | 430,932 | - | 500,000 |
| A Chaudhri | 3,693,500 | 16,000,000 | - |

## DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

The Board reviews the remuneration packages of all Directors and Executive Officers on a regular basis. The Board does not have any formal remuneration policy but any decision on remuneration increases or bonuses is made having due regard to the Consolidated Entity's performance and other relevant factors. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Consolidated Entity's operations and where considered necessary, the Board has sought the advice of external advisers in connection with the structure of remuneration packages.

Details of the nature and amount of each element of remuneration of each Director and each of the 5 most highly paid Executive Officers of the Consolidated Entity paid or payable by the Consolidated Entity during the financial year are as follows:

**Remuneration of Directors of the Consolidated Entity**

| Name of Director | Office Held | Salary $ | Fees $ | Superannuation $ | Other Benefits $ | Total $ |
|---|---|---|---|---|---|---|
| F Khan | Chairman and Managing Director | 125,000 | - | 10,000 | - | 135,000 |
| R Grewe | Chief Technology Officer | 37,513 (US$20,000) | - | - | - | 37,513 (US$20,000) |
| Y Khan | Executive Director | 22,500 | - | 800 | - | 23,300 |
| B McKeon | Non-Executive Director | - | 15,000 | 1,200 | - | 16,200 |
| M Watkins | Non-Executive Director | - | 15,000 | 1,200 | - | 16,200 |
| B McGougan | Non-Executive Director | - | 15,000 | 1,200 | - | 16,200 |
| M van Rens | Non-Executive Director | - | 15,000 | 1,200 | - | 16,200 |
| A Chaudhri | Non-Executive Director | - | 15,000 | - | - | 15,000 |

**Remuneration of 5 Most Highly Paid Executive Officers (Other Than Directors) of the Consolidated Entity**

| Name of Executive Officer | Position Held | Salary $ | Bonus $ | Superannuation $ | Other Benefits $ | Total $ |
|---|---|---|---|---|---|---|
| V Ho | Company Secretary | 50,000 | 1,000 | 4,080 | - | 55,080 |

Mr V Ho was the only Executive Officer (other than Executive Directors) of the Company during the financial year.

There were no securities issued or granted to Directors or Executive Officers of the Company, during or since the financial year, pursuant to any executive or employee share or option plan or otherwise.

## INDEMNITIES

The Company has paid premiums in respect of a Directors' and Officers' Liability Insurance policy, which covers all Directors and officers of the Consolidated Entity. The policy conditions preclude the Company from any detailed disclosures concerning such policy.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify a Director, officer or auditor of the Company or of any related body corporate against a liability incurred as such a Director, officer or auditor.

## EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matters or circumstances at the date of the report, other than those referred to in this report or the financial statements or notes thereto, that have significantly affected or may significantly affect the operations, the results of operations or the state of affairs of the Consolidated Entity in subsequent financial years.

Signed for and on behalf of the Directors in accordance with a resolution of the Board made pursuant to section 298(2) of the Corporations Act 2001.

Farooq Khan
Executive Chairman

Brett McKeon
Non-Executive Director

Perth, Western Australia
15th October 2001

# CORPORATE GOVERNANCE STATEMENT

The Directors are responsible for the corporate governance practices of the Company. This statement sets out the main corporate governance practices that were in operation throughout the financial year, except where otherwise indicated.

### The Board of Directors

The Board carries out its responsibilities according to the following mandate:

- The Board should comprise at least three Directors and a maximum of 10 Directors;
- The Directors should possess a broad range of skills, qualifications and experience;
- The Board should meet on a regular basis; and
- All available information in connection with items to be discussed at a meeting of the Board is provided to each Director prior to that meeting.

On the date of this report, the Board comprise 3 Executive and 5 Non-Executive Directors. Details of the Directors are set out in the Directors' Report.

The primary responsibilities of the Board include:

- The approval of the annual and half-year financial reports;
- The establishment of the long term goals of the Company and strategic plans to achieve those goals;
- The review and adoption of annual budgets for the financial performance of the Company and monitoring the results on a quarterly basis; and
- Ensuring that the Company has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities in accordance with the Company's constitution and the Corporations Act 2001.

The Board delegates to the Managing Director and the executive team all responsibility for the operation and administration of the Company.

### Independent Professional Advice

With the prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

### Risk Management

The Board is responsible for the Company's system of internal controls. The Board constantly monitors the operational and financial aspects of the Company's activities and the Board considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the Company.

The Board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties; and the employment and training of suitably qualified and experienced personnel.

### Committees

In view of the size of the Company and the nature of its activities, the Directors have considered that establishing committees for audit, board nominations and remuneration would contribute little to its effective management. Accordingly audit matters, the nomination of new Directors and the setting, or review of remuneration levels of Directors and senior executives are reviewed by the Board as a whole and approved by resolution of the Board. Where Directors consider that particular expertise or information is required, which is not available from within their number, appropriate external advice may be taken and reviewed prior to a final decision being made by the Board.

### Code Of Conduct

In view of the size of the Company and the nature of its activities, the Directors have considered that an informal code of conduct is appropriate to guide executives, management and employees in carrying out their duties and responsibilities.

# STATEMENT OF FINANCIAL PERFORMANCE

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

| | Note | Consolidated Entity | Company | |
|---|---|---|---|---|
| | | **2001** | **2001** | 2000 |
| **REVENUE FROM SALE OF GOODS** | | **$** | **$** | $ |
| Sale of VoiceNet Systems | **2** | **56,532** | **56,532** | 84,147 |
| Cost of sales | | **(53,840)** | **(53,840)** | (80,140) |
| **Gross Profit** | | **2,692** | **2,692** | 4,007 |
| Other revenue from ordinary activities | **2** | **1,025,140** | **1,025,140** | **2,906,735** |
| **EXPENDITURE** | | | | |
| Occupancy expenses | | **(66,531)** | **(66,531)** | (81,400) |
| Finance expenses | | **(9,587)** | **(8,618)** | (8,605) |
| Borrowing costs | | **(527)** | **(527)** | (2,595) |
| Administration expenses | | **(615,016)** | **(615,016)** | (650,252) |
| Corporate expense - write down of investments | | **(9,000)** | **(554,424)** | (1,523,900) |
| Corporate expenses - other expenses | | **(1,251,582)** | **(1,251,562)** | (723,233) |
| Share of net losses of associates accounted for using the equity method | **12** | **(338,960)** | **-** | - |
| **Loss from ordinary activities before income tax expense** | | **(1,263,371)** | **(1,468,846)** | **(79,243)** |
| Income tax expense relating to ordinary activities | **4** | **350,643** | **350,307** | (374,196) |
| **Net Loss** | **19** | **(912,728)** | **(1,118,539)** | **(453,439)** |
| **Total changes in equity other than those resulting from transactions with owners as owners** | | **(912,728)** | **(1,118,539)** | **(453,439)** |

The Statement of Financial Performance is to be read in conjunction with the notes to the Financial Statements.

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2001

| | Note | Consolidated Entity | Company | |
|---|---|---|---|---|
| | | 2001 | 2001 | 2000 |
| **CURRENT ASSETS** | | $ | $ | $ |
| Cash assets | | 3,632,351 | 3,626,389 | 3,625,027 |
| Receivables | 7 | 89,681 | 89,681 | 86,144 |
| Inventory | 8 | 31,977 | 31,977 | 60,047 |
| Other | 9 | 4,942 | 4,942 | 3,056 |
| **Total current assets** | | 3,758,951 | 3,752,989 | 3,774,274 |
| **NON CURRENT ASSETS** | | | | |
| Receivables | 10 | 13,766 | 20,617 | 13,766 |
| Other financial assets | 11 | 120,388 | 426,556 | 910,000 |
| Investments accounted for using equity method | 12 | 512,532 | - | - |
| Property, plant and equipment | 13 | 526,761 | 526,761 | 628,373 |
| Intangibles | 14 | 1,300,000 | 1,300,000 | 1,700,000 |
| Other | 15 | 19,977 | 19,641 | 4,710 |
| **Total non-current assets** | | 2,493,424 | 2,293,575 | 3,256,849 |
| **TOTAL ASSETS** | | 6,252,375 | 6,046,564 | 7,031,123 |
| **CURRENT LIABILITIES** | | | | |
| Payables | 16 | 86,252 | 86,252 | 180,805 |
| **NON-CURRENT LIABILITIES** | | | | |
| Provisions | 17 | 45,416 | 45,416 | 392,758 |
| **TOTAL LIABILITIES** | | 131,688 | 131,668 | 573,563 |
| **NET ASSETS** | | 6,120,707 | 5,914,896 | 6,457,560 |
| **EQUITY** | | | | |
| Issued capital | 18 | 8,241,580 | 8,241,580 | 7,665,705 |
| Accumulated losses | 19 | (2,120,873) | (2,326,684) | (1,208,145) |
| **TOTAL EQUITY** | | 6,120,707 | 5,914,896 | 6,457,560 |

The Statement of Financial Position is to be read in conjunction with the notes to the Financial Statements.

# STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

| | Note | Consolidated Entity | Company | |
|---|---|---|---|---|
| | | **2001** | **2001** | 2000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Receipts from customers | | **339,180** | **339,180** | 2,884,147 |
| Payments to suppliers and employees | | **(939,459)** | **(938,570)** | (1,340,841) |
| Income tax paid | | **(50,000)** | **(50,000)** | - |
| Interest received | | **194,692** | **194,692** | 151,578 |
| Interest paid | | **(527)** | **(527)** | (2,595) |
| **Net cash used in operating activities** | **26(i)** | **(456,114)** | **(455,225)** | 1,692,289 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Payment for property, plant and equipment | | **(13,158)** | **(13,158)** | (163,987) |
| Payment for other non-current assets | | **(14,673)** | **(14,673)** | - |
| Payment for investment securities | | **(150,219)** | **(150,219)** | (2,433,900) |
| Proceeds from sale of fixed assets | | **2,049** | **2,049** | - |
| Proceeds from sale of investment securities | | **63,564** | **63,564** | - |
| Loans to subsidiaries | | **-** | **(6,851)** | - |
| **Net cash used in investing activities** | | **(112,437)** | **(119,288)** | (2,597,887) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from issue of shares | | **574,625** | **574,625** | 242,136 |
| Proceeds from issue of options | | **1,250** | **1,250** | - |
| **Net cash provided by financing activities** | | **575,875** | **575,875** | 242,136 |
| **Net increase /(decrease) in cash held** | | **7,324** | **1,362** | (663,462) |
| Cash at the beginning of the financial year | | **3,625,027** | **3,625,027** | 4,288,489 |
| **Cash at the end of the financial year** | **26(ii)** | **3,632,351** | **3,626,389** | 3,625,027 |

The Statement of Cash Flows is to be read in conjunction with the notes to the Financial Statements

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

## (i) SUMMARY OF ACCOUNTING POLICIES

### Financial reporting framework

The Financial Report is a general purpose Financial Report, which has been prepared in accordance with the Corporations Act 2001, applicable Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The Financial Report has been prepared on the basis of historical costs and except where stated does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

### Significant accounting policies

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

The following significant accounting policies have been adopted in the preparation and presentation of the Financial Report:

### 1.1 Accounts payable

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

### 1.2 Acquisition of assets

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

### 1.3 Adoption of an AASB Accounting Standard before its application date

The Directors have elected under section 334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 1041 “Revaluation of Non-Current Assets” for this financial year ended 30 June 2001, even though the Standard is not required to be applied until annual reporting periods ending on or after 30 September 2001.

### 1.4 Comparative amounts

The economic entity has adopted the presentation and disclosure requirements of Accounting Standards AASB 1018 “Statement of Financial Performance”, AASB 1034 “Financial Report Presentation and Disclosure” and AASB 1040 “Statement of Financial Position” for the first time in the preparation of this financial report. In accordance with the requirements of these new/revised Standards, comparative amounts have been reclassified in order to comply with the new presentation format. The reclassification of comparative amounts has not resulted in a change to the aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities or equity, or the net loss of the company or economic entity as reported in the prior year financial report.

### 1.5 Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land and investment properties. The depreciable amount of all fixed assets is depreciated over their expected useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of such improvements. The depreciation rate and depreciation method adopted for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate | Depreciation Method |
|---|---|---|
| Building | 2.50% | Straight Line |
| Plant and Equipment | | |
| - Acquired before 1 July 1999 | 13-27% | Straight Line |
| - Acquired after 30 June 1999 | 15-50% | Diminishing Value |
| Leasehold Improvements | 15% | Diminishing Value |

### 1.6 Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is determined by dividing the operating result after income tax by the weighted average number of ordinary shares on issue during the financial year.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

**(ii) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

**1.7 Employee entitlements**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave ("employee entitlements") when it is probable that settlement will be required and they are capable of being measured reliably. Employee entitlements are expected to be settled within one year have been measured at their nominal amount. Superannuation contributions are made by the Consolidated Entity in accordance with statutory obligations and are charged as expenses when incurred.

**1.8 Financial instruments issued by the Company**

**(i) Debt and equity instruments**

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

**(ii) Transaction costs on the issue of equity instruments**

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

**1.9 Foreign currency**

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are recognised in the profit and loss in the period in which they arise.

**1.10 Goods and services tax**

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

(i) Where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO) , it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) For receivables and payables which are recognised inclusive of GST.

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

**1.11 Income tax**

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

**1.12 Inventories**

Inventories are valued at lower of cost and net realisable value, which excludes any portion of fixed and variable overhead expenses, and are assigned directly to each item of inventory on hand and attributed directly to each item of inventory which are sold. This direct assignment and attribution is possible as there are low number of inventory items on hand and which were sold.

**1.13 Investments**

Investments in controlled entities are recorded at cost. Investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. Other investments in listed companies are recorded at cost with appropriate provision made to reflect market value at the Balance Date.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

### 1.14 Intellectual property

Intellectual property is amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial application of such intellectual property. The unamortised amount is reviewed annually to determine whether it is in excess of the recoverable amount. If the carrying value of intellectual property exceeds its recoverable amount, the asset is written down to the lower value. The VoiceNet System VoIP technology is being amortised over 5 years on this basis.

### 1.15 Leased assets

Leased assets classified as finance leases are capitalised as fixed assets and amortised over the estimated useful life of the asset. A lease asset and liability are established at the present value of the minimum lease payments. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased asset are consumed.

### 1.16 Receivables

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

### 1.17 Recoverable amount of non-current assets

The carrying amount of non-current assets are reviewed annually to determine whether they are in excess of the recoverable amount. If the carrying value of a non-current asset exceeds its recoverable amount, the asset is written down to the lower value. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

### 1.18 Research and development costs

Research and development costs are recognised as an expense when incurred, except to the extent that such costs, together with unamortised deferred costs in relation to that project, are expected, beyond any reasonable doubt, to be recoverable.

### 1.19 Principles of consolidation

The consolidated Financial Statements are prepared by combining the Financial Statements of all the entities that comprise the Consolidated Entity, being the Company and its controlled entities. Control exists where the Company has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with the Company to achieve the objectives of the Company. A list of controlled entities is contained in Note 11 to the Financial Statements.

All inter-company balances and transactions between entities in the Consolidated Entity, including any unrealised profits or losses, have been eliminated on consolidation.

### 1.21 Revenue recognition

**(i) Sale of goods and disposal of assets**

Revenue is recognised when the Consolidated Entity has passed control of the goods or other assets to the buyer.

**(ii) Rendering of services**

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

**(iii) Interest revenue**

Revenue is recognised on an accrual basis.

**(iv) Other revenue**

Other revenue is recognised on a receipts basis.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

| | Consolidated Entity | Company | |
|---|---|---|---|
| | **2001** | **2001** | 2000 |
| **2. OPERATING LOSS** | **$** | **$** | $ |
| The operating loss before income tax had been determined after: | | | |
| **(i) Crediting as income** | | | |
| **Sales revenue** | | | |
| Sales of goods | **56,532** | **56,532** | 84,147 |
| Grant of licence | **-** | **-** | 2,300,000 |
| Rendering of services | **727,083** | **727,083** | 416,667 |
| **Other revenue** | | | |
| Rental income | **8,345** | **8,345** | - |
| Interest received - other | **224,099** | **224,099** | 190,068 |
| **Non-operating revenue** | | | |
| Proceeds from sale of assets: | | | |
| Fixed assets | **2,049** | **2,049** | - |
| Non-current investments | **63,564** | **63,564** | - |
| | **1,025,140** | **1,025,140** | 2,906,735 |
| **(ii) Charging as expenses** | | | |
| **Cost of sales** | **53,840** | **53,840** | 80,140 |
| **Other expenses** | | | |
| Occupancy expenses | **66,531** | **66,531** | 81,400 |
| Bank charges and fees | **9,587** | **8,618** | 8,605 |
| Borrowing costs - Interest paid | **527** | **527** | 2,595 |
| Administration expenses: | | | |
| Software development costs | **118,363** | **118,363** | 246,311 |
| Amortisation of intangibles | **400,000** | **400,000** | 300,000 |
| Other development expenses | **96,653** | **96,653** | 103,941 |
| Corporate expenses: | | | |
| Depreciation | | | |
| - Property, plant and equipment | **84,551** | **84,551** | 61,536 |
| Personnel expenses | **452,663** | **452,663** | 381,497 |
| Other provisions - Employee entitlements | **4,820** | **4,820** | 11,670 |
| Write off of assets | **28,170** | **28,170** | - |
| Writedown of investments | **9,000** | **554,424** | 1,523,900 |
| Other corporate administration expenses | **127,173** | **127,153** | 268,530 |
| Cost of investment sold | **552,156** | **552,156** | - |
| Cost of equipment sold | **2,049** | **2,049** | - |
| Equity share of Associate's losses | **338,960** | **-** | - |
| | **2,291,203** | **2,496,678** | 2,989,985 |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

| | Consolidated Entity | Company | |
|---|---|---|---|
| | **2001** | **2001** | 2000 |
| **3. SALES OF ASSETS** | **$** | **$** | $ |
| Sales of assets in the ordinary course of business have given rise to the following losses: | | | |
| **(i) Net Losses:** Investments | **(488,592)** | **(488,592)** | - |
| **4. INCOME TAX EXPENSE** | | | |
| (a) Prima facie tax on operating loss is reconciled to the income tax provided in the accounts as follows: | | | |
| Prima facie tax payable (benefit) on operating loss before income tax at 34% (2000:36%) | **(429,546)** | **(499,408)** | (28,528) |
| **Permanent differences:** | | | |
| Amortisation of VoiceNet Technology | **136,000** | **136,000** | 108,000 |
| Writedown of investments | **3,060** | **188,504** | 548,604 |
| Software development tax depreciation | **(240,183)** | **(240,183)** | - |
| Software development costs | **41,977** | **41,977** | - |
| Non deductible expenditure | **280** | **280** | 5,690 |
| Capital gain on unexercised expired 1 August 2001 options in the Company | **426,650** | **426,650** | - |
| Capital loss on cancelled 31 December 2000 options in Central Exchange Ltd | **(39,100)** | **(39,100)** | - |
| Equity share of associate's losses | **115,246** | **-** | - |
| **Timing differences:** | | | |
| Future income tax benefit not previously recognised now bought to account | **-** | **-** | (259,786) |
| Effect on future income tax benefit and provision for deferred income tax due to change in tax rates | **464** | **464** | 216 |
| | **14,848** | **15,184** | 374,196 |
| Overprovision of income tax in previous years | **(365,491)** | **(365,491)** | - |
| Income tax (benefit)/expense | **(350,643)** | **(350,307)** | 374,196 |
| **Aggregate income tax expense comprises:** | | | |
| Current income tax provision | **18,333** | **18,669** | 377,867 |
| Deferred income tax provision | **1,483** | **1,483** | 1,039 |
| Future income tax benefit | **(4,968)** | **(4,968)** | (4,710) |
| Under/(over) provision in previous years | **(365,491)** | **(365,491)** | - |
| | **(350,643)** | **(350,307)** | 374,196 |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

(b) No part of the future income tax benefit shown in 4(a) is attributable to tax losses. The Directors estimate that the potential future income tax benefit at 30 June 2001 in respect of tax losses not brought to account is $66,168. Thus benefit will only be obtained if:

(i) assessable income is derived of a nature and of amount sufficient to enable the benefit from deductions to be realised;

(ii) conditions for deductibility imposed by the law are complied with; and

(iii) no changes in tax legislation adversely affect the realisation of the benefit from deductions.

| | Consolidated Entity | | Company | |
|---|---|---|---|---|
| | **2001** | | **2001** | 2000 |
| **5. REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS** | **$** | | **$** | **$** |
| **(a) Directors Remuneration** | | | | |
| (i) Total remuneration paid or payable, or otherwise made available to Directors by the Consolidated Entity | **272,748** | | **272,748** | 291,507 |

The Directors of the Company are disclosed in Note 23.

| The number of Directors whose remuneration falls within the following bands: | **2001 Number** | 2000 Number |
|---|---|---|
| \$ 0 to \$ 9,999 | **-** | 1 |
| \$ 10,000 to \$ 19,999 | **5** | 5 |
| \$ 20,000 to \$ 29,999 | **1** | 1 |
| \$ 30,000 to \$ 39,999 | **1** | - |
| \$ 50,000 to \$ 59,999 | **-** | 1 |
| \$ 130,000 to \$ 139,999 | **1** | 1 |

| | Consolidated Entity 2001 $ | | Company 2001 $ | Company 2000 $ |
|---|---|---|---|---|
| (ii) Total remuneration paid or payable, or otherwise made available to relevant Directors by Central Exchange Ltd, being a related party (within the meaning of Accounting Standard AASB 1017 "Related Party Disclosures") of the Consolidated Entity | **182,100** | | **182,100** | 134,306 |

The Directors of Central Exchange Ltd who are also Directors of the Company are Messrs F Khan, Y Khan and B McKeon.

| The number of relevant Directors whose remuneration falls within the following bands: | **2001 Number** | 2000 Number |
|---|---|---|
| \$ 10,000 to \$ 19,999 | **-** | 2 |
| \$ 20,000 to \$ 29,999 | **2** | - |
| \$ 90,000 to \$ 99,999 | **-** | 1 |
| \$ 120,000 to \$ 129,999 | **1** | - |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

(iii) Total number of Directors whose aggregate remuneration in (i) and (ii) above falls within the following bands:

| | 2001 Number | 2000 Number |
|---|---|---|
| $ 0 to $ 9,999 | - | 1 |
| $ 10,000 to $ 19,999 | 4 | 4 |
| $ 20,000 to $ 29,999 | - | 1 |
| $ 30,000 to $ 39,999 | 1 | 1 |
| $ 40,000 to $ 49,999 | 2 | - |
| $ 70,000 to $ 79,999 | - | 1 |
| $ 230,000 to $ 239,999 | - | 1 |
| $ 260,000 to $ 269,999 | 1 | - |

| | Consolidated Entity 2001 $ | Consolidated Entity 2000 $ | Company 2001 $ | Company 2000 $ |
|---|---|---|---|---|
| **(b) Executive Officers Remuneration** | | | | |
| Total remuneration paid or payable, or otherwise made available to Executive Officers (excluding Executive Directors) by the Company and related parties | 54,080 | | 54,080 | - |

| The number of Executive Officers (excluding Executive Directors) whose remuneration falls within the following bands: | 2001 Number | 2000 Number |
|---|---|---|
| $ 50,000 to $ 59,999 | 1 | - |

| | Consolidated Entity 2001 $ | Consolidated Entity 2000 $ | Company 2001 $ | Company 2000 $ |
|---|---|---|---|---|
| **6. AUDITORS REMUNERATION** | | | | |
| Amounts received or due and receivable by the Company's auditors for: | | | | |
| Audit and review of financial report | 14,500 | | 14,500 | 19,500 |
| Other services | - | | - | 5,115 |
| | 14,500 | | 14,500 | 24,615 |
| **7. CURRENT RECEIVABLES** | | | | |
| Amounts receivable from | | | | |
| Sundry debtors | 79,410 | | 79,410 | 41,671 |
| Director related entities | 9,871 | | 9,871 | 44,473 |
| Other | 400 | | 400 | - |
| | 89,681 | | 89,681 | 86,144 |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

| | Consolidated Entity | | Company | |
|---|---|---|---|---|
| | **2001** | | **2001** | 2000 |
| **8. INVENTORY** | **$** | | **$** | **$** |
| Work in progress - at cost | **31,977** | | **31,977** | 60,047 |
| | | | | |
| **9. OTHER CURRENT ASSETS** | | | | |
| Prepayments | **4,942** | | **4,942** | 3,056 |
| | | | | |
| **10. NON-CURRENT RECEIVABLES** | | | | |
| Amounts receivable from wholly-owned entity | **-** | | **6,851** | - |
| Bonds and guarantees | **13,766** | | **13,766** | 13,766 |
| | **13,766** | | **20,617** | 13,766 |
| | | | | |
| **11. OTHER NON-CURRENT FINANCIAL ASSETS** | | | | |
| Investments comprise: | | | | |
| Shares and options in listed companies - at cost | **129,388** | | **129,388** | 115,000 |
| Shares in controlled entities - at cost | **-** | | **100** | - |
| Shares in associates - at cost | **-** | | **2,260,392** | 2,318,900 |
| Less: provision for diminution | **(9,000)** | | **(1,963,324)** | (1,523,900) |
| | **120,388** | | **426,556** | 910,000 |
| | | | | |
| Market value of investments at balance date: | | | | |
| Shares in listed companies | **133,279** | | **439,346** | 910,000 |

| | Ownership Interest | |
|---|---|---|
| **(i) Investment in Controlled Entities:** | **2001** | 2000 |
| Queste Operations Pty Ltd<br>(A.C.N. 094 097 097)<br>Incorporated in Australia on 10 August 2000<br>This company is not currently engaged in any activities | **100%** | - |
| Queste Communications (USA), Inc.<br>Incorporated in Delaware, USA on 15 February 2000<br>This company is not currently engaged in any activities | **100%** | 100% |

**12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

| Name of entity | Principal Activity | Ownership Interest | | Consolidated Carrying Amount | |
|---|---|---|---|---|---|
| | | **2001** | 2000 | **2001** | 2000 |
| Central Exchange Limited | Telecommunications | **23.58%** | 15.98% | **512,532** | - |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

(i) During the financial year, Central Exchange Ltd issued 7,974,817 fully paid ordinary shares to the Company in lieu of cash fees totalling $472,916 for technical services rendered between 1 October 2000 and 16 March 2001, pursuant to a technical services agreement;

(ii) During the financial year, the Company sold (on market) 1,771,417 fully paid ordinary shares in Central Exchange Ltd;

(iii) At the Balance Date, the Company's voting power in Central Exchange Ltd increased to approximately 23.58% (from 15.98% at the beginning of the reporting period);

(iv) Pursuant to AASB 1016 "Accounting for Investment in Associates", the Company is required to account for its investment in Central Exchange Ltd on an equity accounting basis as an Associate entity.

| | Consolidated | |
|---|---|---|
| | **2001** | 2000 |
| | **$** | $ |
| **Movement in Investment in Associate** | | |
| Shares in associated listed entity - at cost | **2,318,900** | - |
| Provision for diminution in value | **(1,408,900)** | - |
| | **910,000** | - |
| Share of losses from ordinary activities before income tax expense | **(338,960)** | |
| Share of income tax expense related to ordinary expense | **-** | - |
| Acquisition of additional interests in associates | **472,916** | - |
| Disposals of interests in associates | **(531,424)** | - |
| Equity accounted amount of investment at the end of the financial year | **512,532** | - |
| **Summarised Financial Position of Associate** | | |
| **Current Assets** | | |
| Cash | **1,702,199** | - |
| Receivables | **23,388** | |
| Others | **796** | - |
| **Non-Current Assets** | | |
| Investments | **49,202** | - |
| Property, plant and equipment | **156,792** | - |
| Intangibles | **298,080** | - |
| Others | **14,106** | - |
| **Current Liabilities** | | |
| Payables | **(61,961)** | - |
| **Non-Current Liabilities** | | |
| Provisions | **(9,010)** | - |
| **Net Assets** | **2,173,592** | - |
| **Net Losses** | **(3,239,091)** | - |
| **Share of Reserves Attributable to Associates** | | |
| Retained losses | | |
| at the beginning of the financial year | **(1,408,900)** | - |
| at the end of the financial year | **(1,747,860)** | - |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

**Contingent Liabilities and Capital Commitments**

The Consolidated Entity's share of contingent liabilities and other expenditure commitments of its associate are as follows:

| | Consolidated Entity 2001 $ |
|---|---|
| **Contingent Liabilities** | |
| Guarantees provided by Associate | **2,358** |
| **Commitments for Expenditure** | |
| Not longer than 1 year | **215,246** |
| Longer than 1 year and not longer than 2 years | **82,530** |
| | **297,776** |

### 13. PROPERTY, PLANT & EQUIPMENT

| | Building | Plant & Equipment | Leasehold Improvements | TOTAL |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Consolidated Entity:** | | | | |
| **Gross Carrying Amount** | | | | |
| Balance at 30 June 2000 | 443,416 | 234,485 | 21,787 | 699,688 |
| Additions | - | 13,158 | - | 13,158 |
| Disposals | - | (68,758) | - | (68,758) |
| Balance at 30 June 2001 | 443,416 | 178,885 | 21,787 | 644,088 |
| **Accumulated Depreciation** | | | | |
| Balance at 30 June 2000 | (17,463) | (52,791) | (1,061) | (71,315) |
| Depreciation expense | (11,086) | (70,357) | (3,108) | (84,551) |
| Disposals | - | 38,539 | - | 38,539 |
| Balance at 30 June 2001 | (28,549) | (84,609) | (4,169) | (117,327) |
| **Net Book Value** | | | | |
| As at 30 June 2000 | 425,953 | 181,694 | 20,726 | 628,373 |
| As at 30 June 2001 | 414,867 | 94,276 | 17,618 | 526,761 |
| **Company:** | | | | |
| **Gross Carrying Amount** | | | | |
| Balance at 30 June 2000 | 443,416 | 234,485 | 21,787 | 699,688 |
| Additions | - | 13,158 | - | 13,158 |
| Disposals | - | (68,758) | - | (68,758) |
| Balance at 30 June 2001 | 443,416 | 178,885 | 21,787 | 644,088 |
| **Accumulated Depreciation** | | | | |
| Balance at 30 June 2000 | (17,463) | (52,791) | (1,061) | (71,315) |
| Depreciation expense | (11,086) | (70,357) | (3,108) | (84,551) |
| Disposals | - | 38,539 | - | 38,539 |
| Balance at 30 June 2001 | (28,549) | (84,609) | (4,169) | (117,327) |
| **Net Book Value** | | | | |
| As at 30 June 2000 | 425,953 | 181,694 | 20,726 | 628,373 |
| As at 30 June 2001 | 414,867 | 94,276 | 17,618 | 526,761 |

Aggregate depreciation during the year is recognised as an expense and disclosed in Note 2 of the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 20011

| | Consolidated Entity | Company | |
|---|---|---|---|
| | **2001** | **2001** | 2000 |
| **14. INTANGIBLES** | $ | $ | $ |
| VoiceNet System VoIP Technology - at cost | **2,000,000** | **2,000,000** | 2,000,000 |
| Less: Accumulated amortisation | **(700,000)** | **(700,000)** | (300,000) |
| | **1,300,000** | **1,300,000** | 1,700,000 |

Aggregate amortisation allocated during the year is recognised as an expense and disclosed in Note 2 of the Financial Statements.

| | | | |
|---|---|---|---|
| **15. OTHER NON-CURRENT ASSETS** | | | |
| Internet website - work-in-progress | **14,673** | **14,673** | - |
| Future income tax benefit: | | | |
| Timing differences | **5,304** | **4,968** | 4,710 |
| | **19,977** | **19,641** | 4,710 |
| **16. CURRENT ACCOUNTS PAYABLE** | | | |
| Trade creditors | **18,117** | **18,117** | 56,215 |
| Other creditors and accruals | **50,744** | **50,744** | 23,500 |
| Amounts payable to: | | | |
| Directors and Director related entities | **17,391** | **17,391** | 101,090 |
| | **86,252** | **86,252** | 180,805 |
| **17. NON-CURRENT PROVISIONS** | | | |
| Provisions for employee entitlements | **16,559** | **16,559** | 13,852 |
| Provision for income tax | **27,374** | **27,374** | 377,867 |
| Provision for deferred income tax | **1,483** | **1,483** | 1,039 |
| | **45,416** | **45,416** | 392,758 |
| | **Number** | **Number** | **Number** |
| Number of employees (including Executive Directors and Officers) at balance date | 6 | 6 | 6 |

| | Consolidated Entity | Company | |
|---|---|---|---|
| | **2001** | **2001** | 2000 |
| **18. ISSUED CAPITAL** | $ | $ | $ |
| 28,847,363 (2000:27,205,577) fully paid ordinary shares | **5,903,568** | **5,903,568** | 5,328,943 |
| 20,000,000 partly paid ordinary shares | **200,000** | **200,000** | 200,000 |
| Option premium | **2,138,012** | **2,138,012** | 2,136,762 |
| | **8,241,580** | **8,241,580** | 7,665,705 |

The Company's 20,000,000 unlisted partly paid ordinary shares are each paid to one cent with 19 cents per share outstanding.

At any meeting, each shareholder present in person or by proxy, attorney or representative has one vote for each ordinary fully paid share held either upon a show of hands or by a poll. Holders of partly paid shares have a fraction of a vote for each partly paid share held with the fractional vote of each share being equivalent to the proportion which the amount actually paid (not credited) for that share is of the total amounts paid and payable (excluding amounts credited) for that share. Amounts paid in advance of a call are ignored when calculating proportions. The holder of a partly paid share is not entitled to vote at a meeting in respect of those shares on which calls are outstanding. No voting rights are attached to the Company's options on issue.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

The profits of the Company, which the Directors may from time to time determine to distribute to shareholders by way of a dividend, will be divisible amongst the shareholders in proportion to the amounts paid on the shares held by them. An amount paid in advance of a call is not to be included as an amount paid on a share for the purposes of calculating entitlement to dividends for such share.

(a) The movement in issued ordinary share capital is reconciled as follows:

| Date | Description | $ |
|---|---|---|
| 28 July 2000 | 394,200 (1 August 2001) options exercised at 35 cents per option and converted into fully paid ordinary shares | 137,970 |
| 1 August 2000 | 1,247,586 (1 August 2001) options exercised at 35 cents per option and converted into fully paid ordinary shares | 436,655 |
| | | 574,625 |

(b) Details of options on issue are as follows:

| Number | Terms and Conditions |
|---|---|
| 5,000,000 | Expiring on 21 July 2003 with an exercise price of $0.20 per share |

| | Consolidated Entity | Company | |
|---|---|---|---|
| | **2001** | **2001** | 2000 |
| **19. ACCUMULATED LOSSES** | **$** | **$** | **$** |
| Balance at beginning of the year | **(1,208,145)** | **(1,208,145)** | (754,706) |
| Net loss | **(912,728)** | **(1,118,539)** | (453,439) |
| Balance at end of financial year | **(2,120,873)** | **(2,326,684)** | (1,208,145) |

| | Consolidated Entity | Company |
|---|---|---|
| | **2001** | 2000 |
| **20. EARNINGS PER SHARE** | **$** | **$** |
| Basic earnings per share (cents) | **(3.07)** | (1.61) |
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share | **29,710,584** | 28,170,749 |

The Company's partly paid shares, to the extent that they have been paid (one cent per share), have been included in the determination of the basic earnings per share.

The Company's options and partly paid shares, to the extent of the balance of the call (19 cents per share), have not been included in the determination of basic earnings per share. These securities are included in the determination of diluted earnings per share on the basis that each option will convert to one ordinary share and each partly paid share will become fully paid.

Diluted earnings per share is not materially different from basic earnings per share and therefore, is not disclosed in the Financial Statements.

| | Consolidated Entity | Company | |
|---|---|---|---|
| | **2001** | **2001** | 2000 |
| **21. LEASE COMMITMENTS** | **$** | **$** | **$** |
| Non-cancellable operating lease commitments: | | | |
| Not longer than one year | **105,643** | **105,643** | 70,116 |

The lease is in relation to the office premises of the Company and includes all outgoings. Such expenditure is shared with Fast Scout Ltd (of which Messrs F Khan, Y Khan, R Grewe and A Chaudhri are directors and in which they also have a relevant interest) and Central Exchange Ltd (of which Messrs F Khan, Y Khan and B M McKeon are directors and in which they also have a relevant interest), pursuant to shared office and administration expense arrangements.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

**22. SEGMENT REPORTING FOR 2001**

The Consolidated Entity operates predominantly within Australia and in one industry segment, being telecommunications technology.

**23. RELATED PARTY DISCLOSURES**

The names of each person holding the position of Director of the Company during the financial year are Messrs F Khan, Y Khan, B McKeon, M Watkins, R Grewe, M van Rens, B McGougan and A Chaudhri.

**(i) Equity Interests In Controlled Entities**

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 11 to the Financial Statements.

**(ii) Directors' Remuneration**

Information on the remuneration of Directors is disclosed in Note 5 and in the Directors' Report.

**(iii) Directors' Relevant Interest in Securities of the Company**

The movement in Directors' aggregate relevant interest in the securities of the Company during the financial year is:

| | Held at 1 July 2000 | Purchased | Sold | Lapsed | Held at 30 June 2001 |
|---|---|---|---|---|---|
| Fully Paid Ordinary Shares (listed) | 10,700,532 | 50,000 | 75,000 | - | 10,675,532 |
| Options expiring 21 July 2003 (unlisted - exercisable at 20 cents each) | 5,000,000 | - | - | - | 5,000,000 |
| Partly Paid Ordinary Shares (unlisted - partly paid to one cent with 19 cents per share outstanding) | 20,000,000 | - | - | - | 20,000,000 |
| Options expiring 1 August 2001 (listed - exercisable at 35 cents each) | 181,975 | - | - | 181,975 | - |

**(iv) Transactions with Controlled Entities**

During the financial year, the Company provided a loan to and incurred operating expenses on behalf of Queste Operations Pty Ltd, a wholly owned subsidiary of the Company. The following amounts remain outstanding at the Balance Date. Interest is not charged on such outstanding amounts.

| Entity | Amount Outstanding $ |
|---|---|
| Queste Operations Pty Ltd | 6,851 |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

**(v) Transactions with Directors or Director Related Entities**

The following details relevant transactions between the Company and Directors and Director Related Entities (within the meaning of Accounting Standard AASB 1017 "Related Party Disclosures").

**(a) Contractual Expenditure**

During the financial year, Queste America Inc. (of which R Grewe is a director and in which he also has a relevant interest) provided software development services to the Company, pursuant to a software development agreement dated 3 August 1998. There was an amount outstanding at the Balance Date by the Company. Interest is not charged on such outstanding amount.

| Entity | Expenditure<br>$ | Amount Outstanding<br>$ |
|---|---|---|
| Queste America Inc | 122,783 | 9,925 |

**(b) Contractual Receipts**

During the financial year, the Company derived technical service fee revenues from Central Exchange Ltd (of which Messrs F Khan, Y Khan and B M McKeon are directors and in which they also have a relevant interest), pursuant to a technical services agreement dated 4 June 1999.

| Entity | Receipts<br>$ |
|---|---|
| Central Exchange Ltd | 727,083 |

**(c) Other Debtors**

During the financial year, the Company incurred operating expenses on behalf of Fast Scout Ltd (of which Messrs F Khan, Y Khan, R Grewe and A Chaudhri are directors and in which they also have a relevant interest), pursuant to shared office and administration expense arrangements. There was an amount outstanding at the Balance Date by Fast Scout Ltd. Interest is not charged on such outstanding amount.

| Entity | Amount Outstanding<br>$ |
|---|---|
| Fast Scout Ltd | 8,771 |

During the financial year, the Company reimbursed amounts to F Khan for operating expenses incurred on behalf of the Company by F Khan. The following amount represents an overpayment of such reimbursements which remain outstanding at the Balance Date by F Khan. Interest is not charged on this outstanding amount.

| Director | Amount Outstanding<br>$ |
|---|---|
| F Khan | 1,100 |

**(d) Other Creditors**

During the financial year, R Grewe and Central Exchange Ltd (of which Messrs F Khan, Y Khan and B M McKeon are directors and in which they also have a relevant interest), pursuant to shared office and administration expense arrangements, incurred operating expenses on behalf of the Company. The following amounts remain outstanding at the Balance Date by the Company. Interest is not charged on such outstanding amounts.

| Director or Entity | Amount Outstanding<br>$ |
|---|---|
| R Grewe | 2,723 |
| Central Exchange Ltd | 4,744 |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

### 24. STATEMENT TO CASH FLOWS

**(i) Reconciliation of operating loss after tax to the net cash flow from operations**

| | Consolidated Entity | Company | |
|---|---|---|---|
| | **2001** | **2001** | 2000 |
| | **$** | **$** | $ |
| Operating loss after tax | **(912,728)** | **(1,118,539)** | (453,439) |
| Share of associate's losses | **338,960** | **-** | - |
| Depreciation - plant & equipment | **84,551** | **84,551** | 61,536 |
| Amortisation of VoiceNet Technology | **400,000** | **400,000** | 300,000 |
| Amounts written off investments | **9,000** | **554,424** | 1,523,900 |
| Amounts written off assets | **28,171** | **28,171** | - |
| Loss on sale of investment | **488,592** | **488,592** | - |
| (Decrease)/increase in income tax payable | **(351,088)** | **(350,752)** | 377,867 |
| Decrease/(Increase) in tax balances | **444** | **444** | (3,671) |
| Investment in subsidiary | **100** | | |
| Issue of shares in lieu of technical fees | **(472,917)** | **(472,917)** | - |
| (Increase)/decrease in assets: | | | |
| Current receivables | **(3,537)** | **(3,537)** | (97,608) |
| Inventories | **28,070** | **28,070** | (60,047) |
| Other current assets | **(1,886)** | **(1,886)** | (3,056) |
| Increase/(decrease) in liabilities: | | | |
| Current trade payables | **(94,553)** | **(94,553)** | 37,037 |
| Provision for annual leave | **2,707** | **2,707** | 9,770 |
| Net cash flows from operating activities | **(456,114)** | **(455,225)** | 1,692,289 |

During the financial year, Central Exchange Ltd issued 7,974,817 ordinary shares to the Company in lieu of cash fees totalling $472,917 for technical services rendered between 1 October 2000 and 16 March 2001.

**(ii) Reconciliation of cash**

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

| | Consolidated Entity | Company | |
|---|---|---|---|
| | **2001** | **2001** | 2000 |
| | **$** | **$** | $ |
| Cash at bank | **213,199** | **207,237** | 25,027 |
| Term Deposit | **1,826,352** | **1,826,352** | 3,600,000 |
| Bank Bills | **1,592,800** | **1,592,800** | - |
| | **3,632,351** | **3,626,389** | 3,625,027 |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

### 25. FINANCIAL INSTRUMENTS

#### (a) Interest Rate Risk Exposure

| | Average Interest Rate | Variable Interest Rate | Fixed Interest Rate | Non-interest bearing | TOTAL |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **2001** | | | | | |
| **Financial assets** | | | | | |
| Cash | 5.51% | 213,081 | 3,419,152 | 118 | 3,632,351 |
| Receivables | | - | - | 89,681 | 89,681 |
| Shares in listed companies | | - | - | 120,388 | 120,388 |
| | | 213,081 | 3,419,152 | 210,187 | 3,842,420 |
| **Financial Liabilities** | | | | | |
| Accounts payable | | - | - | 86,252 | 86,252 |
| Employee entitlements | | - | - | 16,559 | 16,559 |
| | | - | - | 102,811 | 102,811 |
| **Net financial assets** | | 213,081 | 3,419,152 | 107,376 | 3,739,609 |
| **2000** | | | | | |
| **Financial assets** | | | | | |
| Cash | 5.85% | 24,827 | 3,600,000 | 200 | 3,625,027 |
| Receivables | | - | - | 99,910 | 99,910 |
| Shares in listed companies | | - | - | 910,000 | 910,000 |
| | | 24,827 | 3,600,000 | 1,010,110 | 4,634,937 |
| **Financial Liabilities** | | | | | |
| Accounts payable | | - | - | 180,805 | 180,805 |
| Employee entitlements | | - | - | 16,559 | 16,559 |
| | | - | - | 197,364 | 197,364 |
| **Net financial assets** | | 24,827 | 3,600,000 | 812,746 | 4,437,573 |

#### (b) Credit Risk Exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the Financial Statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk.

#### (c) Net Fair Value of Financial Assets and Liabilities

Except as detailed below, the carrying amount of financial assets and financial liabilities recorded in the Financial Statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

The net fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

| | Carrying Amount | | Net Fair Value | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| **Financial Assets** | **$** | **$** | **$** | **$** |
| **Traded on Organised Markets** | | | | |
| Shares on listed companies | **120,388** | 910,000 | **439,346** | 910,000 |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

### 26. SUBSEQUENT EVENTS

(i) The Company has resumed (post Balance Date) the provision of technical services to Central Exchange Ltd leading up to the commercial launch of the Central Exchange telecommunications network on 8 August 2001. The Company reached an agreement with Central Exchange to receive a fixed $100,000 for these partial technical services rendered and to be rendered in July, August and September 2001. The Board of Central Exchange Ltd has subsequently exercised their election under the technical services agreement to issue 5,528,055 ordinary shares to the Company in satisfaction of such fixed $100,000 technical service fee. Central Exchange Ltd issued the shares on 28 August 2001.

At the date of this report, the Company owns 22,148,755 ordinary shares in Central Exchange Ltd representing approximately 31.44% of issued ordinary share capital.

## DIRECTORS' DECLARATION

The Directors declare that:

(i) The attached financial statements and notes thereto comply with accounting standards;

(ii) The attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and Consolidated Entity;

(iii) In the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporation Act 2001; and

(iv) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.

**Farooq Khan**
*Executive Chairman*

**Brett McKeon**
*Non-Executive Director*

Perth, Western Australia
15 October 2001

Deloitte Touche Tohmatsu
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Deloitte Touche Tohmatsu

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF QUESTE COMMUNICATIONS LTD

**Scope**

We have audited the financial report of Queste Communications Ltd for the financial year ended 30 June 2001 as set out on pages 16 to 36. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end 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 the financial report in order to express an opinion on it to the members of the company.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter McIver

**Peter J McIver**
*Partner*
*Chartered Accountants*

Perth, Western Australia

15 October 2001

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

# STOCK EXCHANGE INFORMATION

AS AT 21 SEPTEMBER 2001

**DISTRIBUTION OF LISTED ORDINARY FULLY PAID SHARES**

| Spread | of | Holdings | Number of Holders | Number of Units | % of Total Issue Capital |
|---|---|---|---|---|---|
| 1 | - | 1,000 | 50 | 35,598 | 0.123 % |
| 1,001 | - | 5,000 | 251 | 811,969 | 2.814 % |
| 5,001 | - | 10,000 | 230 | 2,992,530 | 6.907 % |
| 10,001 | - | 100,000 | 352 | 10,075,731 | 34.927 % |
| 100,001 | - | and over | 31 | 15,931,535 | 55.227 % |
| **Total** | | | **914** | **29,847,363** | **100%** |

9,000,000 fully paid ordinary shares were released from escrow on 6 November 2000.

**Marketable Parcel**

| Spread | of | Holdings | Number of Holders | Number of Units | % of Total Issue Capital |
|---|---|---|---|---|---|
| 1 | - | 14,286 | 581 | 3,432,264 | 11.90 % |
| 14.286 | - | over | 333 | 25,415,099 | 88.10 % |
| **Total** | | | **914** | **28,847,363** | **100%** |

An unmarketable parcel is considered, for the purposes of the above table, to be a shareholding valued at $500 or less in total, based upon the Company's closing share price on 21 September 2001 of $0.035 per share.

**DISTRIBUTION OF UNLISTED OPTIONS EXERCISABLE AT 20 CENTS AND EXPIRING 21 JULY 2003**

| Name | No. of Options |
|---|---|
| Mr F Khan | 3,240,000 |
| Mr B McKeon | 300,000 |
| Mr M J van Rens | 500,000 |
| Mr M Watkins | 300,000 |
| Mr B McGougan | 300,000 |
| Mr Y Khan | 360,000 |
| **Total** | **5,000,000** |

All of these 21 July 2003 options were released from escrow on 6 November 2000.

**DISTRIBUTION OF UNLISTED PARTLY PAID ORDINARY SHARES**

| Name | No. of Options |
|---|---|
| Chi Tung Investments Ltd | 16,000,000 |
| Grandstar Investments Pty Ltd | 4,000,000 |

These 20,000,000 ordinary shares were issued at a price of 20 cents per share and have been partly paid to one cent each and have an outstanding amount payable of 19 cents per share. These partly paid shares were released from escrow on 6 November 2000.

# STOCK EXCHANGE INFORMATION

AS AT 21 SEPTEMBER 2001

### VOTING RIGHTS

- Ordinary fully paid shares have one vote per share.
- No voting rights are attached to the Company's options.
- The Company's partly paid shares have a proportional voting entitlement in accordance with the amount paid up for that share.

### TOP TWENTY ORDINARY FULLY PAID SHAREHOLDERS

| Rank | Shareholder | Total Units | % Issued Capital |
|---|---|---|---|
| 1 | RENMUIR HOLDINGS LTD | 2,633,500 | 9.129 |
| 2 | QUESTE AMERICA INC. | 2,500,000 | 8.666 |
| 3 | MAWSON GROUP WA PTY LTD | 2,157,020 | 7.477 |
| 4 | ISLAND AUSTRALIA PTY LTD | 1,275,020 | 4.419 |
| 5 | CHI TUNG INVESTMENTS LTD | 1,050,000 | 3.639 |
| 6 | FASTSCOUT LTD | 826,950 | 2.866 |
| 7 | MANAR NOMINEES PTY LTD | 718,759 | 2.491 |
| 8 | KYA CORPORATION PTY LTD | 514,500 | 1.783 |
| 9 | MRS ELIZABETH MARGARET DE BURGH < E C DE BURGH F/FUND A/C > | 395,119 | 1.369 |
| 10 | MICHAEL VAN RENS FINANCIAL SERVICES PTY LTD < SUPER FUND ACCOUNT > | 306,806 | 1.063 |
| 11 | DR ABE ZELWER < ZELWER SUPER FUND ACCOUNT > | 285,500 | 0.989 |
| 12 | TASCOAST PTY LTD < THE GULABOVSKI FAMILY A/C > | 223,900 | 0.776 |
| 13 | YOBAXS PTY LTD & YOBAXS PTY LTD < SQUIRRELL SUPER FUND A/C > | 221,875 | 0.769 |
| 14 | MRS CHERRYL DAWN BAGSHAW | 218,750 | 0.758 |
| 15 | MRS AFIA KHAN | 215,000 | 0.745 |
| 16 | MR AYUB KHAN | 215,000 | 0.745 |
| 17 | MRS AMBREEN CHAUDHRI | 215,000 | 0.745 |
| 18 | DR ABRAHAM LEON ZELWER < ZELWER SUPERFUND ACCOUNT > | 197,866 | 0.685 |
| 19 | MR ABE ZELWER < ZELWER SUPER FUND A/C > | 196,000 | 0.679 |
| 20 | HUNT CORPORATION'S PTY LTD < HUNT INVESTMENT FUND A/C > | 179,785 | 0.623 |
| Total | | 14,546,350 | 50.416 |

### SUBSTANTIAL SHAREHOLDERS

The following shareholders are holders of 5% or more of the Company's issued fully paid ordinary shares.

| Shareholder | Ordinary Shares | % Issued Capital |
|---|---|---|
| RENMUIR HOLDINGS LTD | 2,633,500 | 9.129 |
| QUESTE AMERICA INC. | 2,500,000 | 8.666 |
| MAWSON GROUP WA PTY LTD | 2,157,020 | 7.477 |

# STOCK EXCHANGE INFORMATION

AS AT 21 SEPTEMBER 2001

**RECONCILIATION OF MATERIAL DIFFERENCES BETWEEN APPENDIX 4B AND ANNUAL REPORT**

The following table outlines the material differences between the Appendix 4B Preliminary Financial Report lodged with the ASX on 13 September 2001 and the financial statements included in this annual report.

| | Appendix 4B | Consolidated Entity 2001<br>Annual Report | Variance |
|---|---|---|---|
| | $ | $ | $ |
| **Statement of Financial Performance** | | | |
| Revenues from ordinary activities | 1,018,957 | 1,027,832 | (8,875) |
| Expenses from ordinary activities | (2,488,265) | (1,951,716) | (536,549) |
| Share of net losses of associates accounted for using the equity method | (306,068) | (338,960) | 32,892 |
| **Statement of Financial Position** | | | |
| Investment acquired for using equity method | - | 512,532 | 512,532 |
| | (1,775,376) | (750,312) | - |
| Provision for diminution | | | (545,424) |
| Share of net losses of Associate company accounted for using the equity method | | | 32,892 |
| Investment acquired for using equity method | | | 512,532 |
| | | | - |

After the lodgment of the Company's Appendix 4B Preliminary Final Report, and during the course of auditing the Consolidated Entity's financial statements, the Company's auditors identified the need for the Company to account for the Company's share of the Associate company's net assets at Balance Date.

The Associate company's net assets at Balance Date was $2,173,592 and the Company's share of such net assets, based on its ownership interest at Balance Date of 23.58%, is $512,532.

# GLOSSARY OF TERMS

**H.323 Protocol** means an international standard developed by the ITU for voice and video standard for transmission over packet switched networks. Its main benefits are a single standard to permit Internet telephony networks to inter-operate, interoperability standards for ISDN and telephony based conferencing systems, and the flexibility to support multiple standards to the correct destination.

**ISP** means Internet Service Providers

**Internet** the Internet is a global system of telephone, cable and data networks. It is a network of networks. It enables commercial organisations, individuals, educational institutions and government agencies to communicate, exchange data and engage in a growing variety of commercial activities in an international, real-time environment.

**IP** means Internet Protocol - a connectionless, best effort packet switching protocol, which provides routing, fragmentation and reassembly through the data link layer.

**PABX (or PBX)** means Private Branch Exchange (or Private Branch Exchange). A private telephone switch connected to the PSTN.

**POP** means points of presence - a "point of presence" is a site which provides customers with a point at which to dial in to the Internet.

**PSTN** means Public Switched Telephone Network - the conventional network on which telephone calls are made.

**Router** a special-purpose computer (or software package) that handles the connection between two or more computer networks. Routers look at the destination addresses of the packets of data passing through them and decide which route to send them on.

**Switch** a device which allows the connection of circuits based on information provided by the device seeking to establish a circuit.

**TCP** means Transmission Control Protocol, the network protocol (or uniform rules) that converts messages into streams of electronic packets at the source and them reassembles them back into messages at the destination.

**VoIP** means Voice over Internet Protocol - the use of IP to allow telephony over the Internet. Internet telephony software compresses the user's voice and packetises it for transmission. These IP packets are treated as ordinary data which is then transmitted over the Internet like any other data packet.

**VPN** means Virtual Private Network - Network resources provided to users, on demand, by public carriers such that the users view this partition of the network as a private network.

**WAN** means Wide Area Network. A network of computers able to communicate over a wide area.  A WAN often links a number of WANs together.  The Internet is an example of a WAN.

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