

## MANAGING DIRECTORS REPORT

The following report from M2's Group Managing Director, summarises the significant developments in the core operations of the Consolidated Entity.

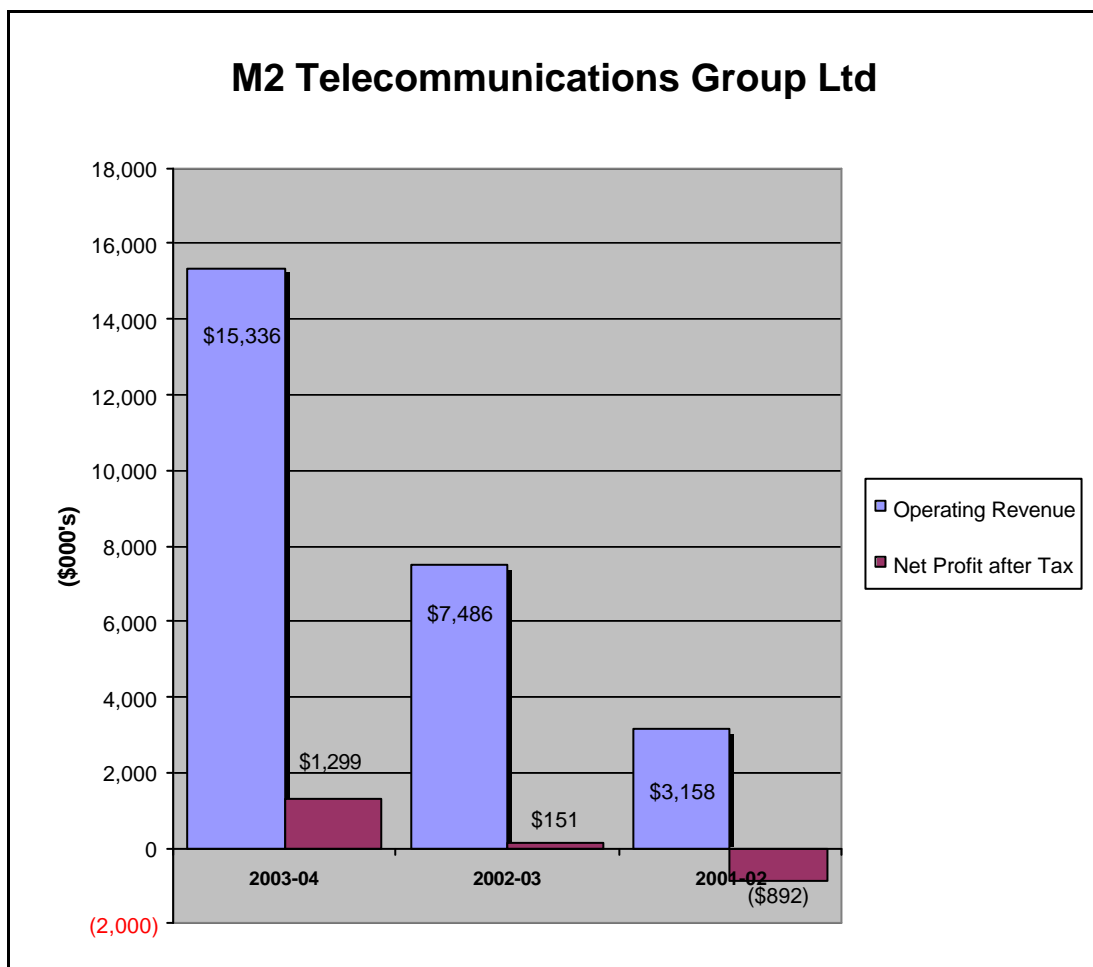
The Consolidated entity grew revenues by 105%, to \$15.336Million, compared with consolidated revenues of \$7.486Million in the previous Period (2002/3).

Very pleasingly, the Consolidated entity recorded a profit of \$1,299,343. This profit represented a profit increase of 763% as compared with the previous Period (2002/3 \$150,565).

The most notable development within the Group during the Period was the continued significant growth of M2 Connect, the Group's voice carriage services business, which grew its revenues to \$12.2 million from \$5.6 million in the previous Period, representing a 119% increase.

The Directors Report, which follows, provides detailed information pertaining to the consolidated financial outcomes of the business for the Period.

The following graph illustrates the improved operating performance of the business during the Period compared with the previous two (2) financial years.



## BUSINESS OF NOTE FOLLOWING END OF PERIOD

Below is a summary of business activities of note which have occurred subsequent to the end of the Period and prior to the date of publication of this Annual Report :

### (a) Preparation for Initial Public Offering (IPO)

During the Period, the M2 Board agreed to mobilise a due diligence process relating to the prospective listing of the securities of the Company on the Australian Stock Exchange (ASX) by way of an IPO, as a means to stimulate further organic growth and to position the Company to take advantage of selected acquisition opportunities, as and when they arise. The IPO is proposed in respect of ordinary shares in the Company. A copy of the prospectus for the IPO will be made available to shareholders if the IPO takes place. Any person wishing to acquire shares in the IPO must complete the application form attached to the prospectus.

As at the date of publication of this Annual Report, the IPO Due Diligence Committee is substantially progressed in the preparation of a prospectus and in the associated tasks relating to determination of pricing, underwriting and marketing of the proposed issue.

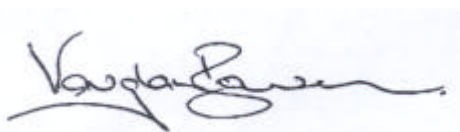
Whilst the Board is endeavouring to successfully complete ASX listing, there are various statutory, procedural and market related factors which may adversely impact the process, therefore providing no certainty that listing will occur.

## SUMMARY

The 2003-4 financial year was a very successful year for M2 on a number of fronts, most noticeably evidenced by a considerable increase in consolidated revenues and profitability.

Additionally, the Company generated positive cash flow and eliminated debt, resulting in a considerably stronger balance sheet of the Consolidated Entity.

For the year ahead, M2 intends to continue to build upon its profitable business base, through sustained organic growth in existing and new markets together with growth through new strategic alliances and selective acquisitions.



VAUGHAN BOWEN  
**Group Managing Director**

## **DIRECTORS' REPORT**

Your directors present their report for the year ended 30 June 2004.

### **DIRECTORS**

The names and details of the directors in office during the financial year and at the date of this report are :

***Max Garfield Bowen***

***Non Executive Chairman***

Max Bowen brings to the M2 Group the experience gained in a management career spanning more than four decades. Max's strengths lie in the areas of business development planning, organisation structuring and a wealth of senior management relationships amongst Australia's leading organisations.

***Vaughan Garfield Bowen***

***Group Managing Director***

Vaughan holds a Bachelor of Commerce degree and joined as Managing Director in November 1999. He brings proven general management, marketing and business development skills to M2, plus nearly 5 years hands-on experience in the telecommunications industry, as Managing Director of M2, since incorporation of the company.

***Dennis Nabeeh Basheer***

***Non-Executive Director***

Dennis is an experienced company director with past focus on property development, project management and franchise developments. Dennis spent over 7 years day-to-day involved in the corporate sales areas of M2's Messagemate operating division, initially as a founding director of the operating entity acquired by M2 (Messagemate Australia Pty Ltd) and subsequent to the incorporation of M2.

***John Sandford Hynd***

***Non-Executive Director***

John is a corporate solicitor with over 20 years experience in commercial transactions, corporate advice and corporate governance issues. John specialises in intellectual property (IP) legal affairs, with a particular focus upon high technology industries. John's empathy for technology, coupled with a methodical legal / commercial approach to IP, licensing and technology distribution agreements, has provided M2 with valuable direction on such matters, since 1999.

***Craig Lehmann Farrow***

***Non-Executive Director***

Craig holds a Bachelor of Economics Degree from the University of Adelaide and is a Fellow of the Institute of Chartered Accountants. He is a founding partner of Brentnalls SA, Chartered Accountants and former National Chairman of the Brentnalls National Affiliation of Accounting Firms. Craig is a director or board adviser to several consulting and trading enterprises, and is currently National Chairman of the Institute of Chartered Accountants' Public Practice Advisory Committee. Craig is also highly awarded, including being a Fellow of the Governor's Leadership Foundation and receiving the Institute of Chartered Accountants 1999 National President's Award for services to the Institute and the profession.

All directors were officially appointed in February 2000.

The interests of the directors in the shares and options of the company and related body corporates at the date of this report is set out in Note 25 of the Financial Report.

### **PROFIT / LOSS**

The profit of the consolidated entity for the year ended 30 June 2004, after providing for income tax, amounted to \$1,299,343 (2003 \$150,565 profit).

M2 Telecommunications Group Ltd profit for the year of \$2,526,136 (2003 \$24,045 loss) was improved by a reversal of provision for diminution of investment in the M2 Telecommunications Pty Ltd subsidiary. Due to the sustained profits being achieved in M2 Telecommunications Pty Ltd the directors of M2 Telecommunications Group Limited have now re-assessed the carrying value of that company's investment in M2 Telecommunications Pty Ltd to its original valuation.

## PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the Period was the reselling of fixed line voice telecommunications services through its M2 Connect operating division.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The companies within the consolidated entity were incorporated in December 1999.

As at 30 June 2004 the issued capital of the holding company was \$5,332,668 (2003 \$4,658,568), whilst the net shareholders' equity of the consolidated entity at that date was \$3,278,657 (2003 \$1,305,214).

## REVIEW OF OPERATIONS

M2 Group experienced substantial revenue growth during the Period, generating Gross Revenue of \$15,336,301 for the year to end June 2004, compared with \$7,486,059 for the year to end June 2003 (105% increase in Gross Revenue over previous Period).

An Operating Profit of \$1,299,343 was recorded for the year to end June 2004, compared with an Operating Profit of \$150,565 for the year to end June 2003 (763% increase in Operating Profit over previous Period).

## EVENTS SINCE BALANCE DATE

See Managing Directors Report (page 2), for a summary of pertinent events relating to the Consolidated Entity since Balance Date.

## LIKELY DEVELOPMENT & EXPECTED RESULTS

The Directors forecast that the financial performance of the business will continue to improve in the 2003-04 year, particularly due to the growth in recurring sales of M2 Connect, via its customer acquisition / retention programs and enlarged national sales distribution channels.

## ENVIRONMENT REGULATION & PERFORMANCE

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

## DIVIDENDS

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

## OPTIONS

There were nil options outstanding at the date of this report. Please refer to Note 17.

## DIRECTORS' & OFFICERS' INDEMNITY INSURANCE

No indemnities have been given nor insurance premiums paid, during or since the end of the year, for any person who is or has been an officer, director or auditor of the consolidated entity.

## DIRECTORS' REMUNERATION

The only emoluments paid to directors during the year were those due as agreed salary packages to executive directors. No directors' fees were paid to non-executive directors during the year.

The executive directors' remuneration is set by the board of directors.

Details of the nature and amount of each element of the employment of each director of the company and for each executive officer of the company and the consolidated entity receiving the highest emolument for the financial year are as follows:

### Emoluments' of directors of the Consolidated Entity

	Annual Emoluments			
	Base Fee \$	Bonus \$	Other \$	Superannuation \$
V. Bowen	150,000	-	-	13,500
D. Basheer	14,750	-	-	1,224

### Notes to Directors Remuneration

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.

The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity

Executives are those directly accountable and responsible for the operational management and strategic direction of the company and the consolidated entity. No other employees meet the definition of executive officer.

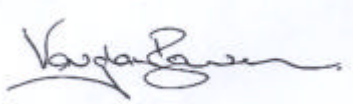
## DIRECTORS' MEETINGS

The number of directors' meetings of the holding company during the year were 7.

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of M2 Telecommunications Group Limited support and have adhered to the principles of corporate governance.

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

A handwritten signature in black ink, appearing to read 'Vaughan Bowen', written over a light blue rectangular background.

VAUGHAN BOWEN  
**Group Managing Director**

Dated this 31<sup>st</sup> day of August 2004

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2004**

	Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
		2004	2003	2004	2003
		\$	\$	\$	\$
Revenue from ordinary activities	2	15,336,301	7,486,059	-	-
Changes in inventories of finished goods and work in progress		(206,756)	(234,471)	-	-
Raw material and consumables used		(11,034,414)	(4,725,052)	-	-
Employee benefits expense		(1,460,601)	(1,284,232)	-	-
Provision for Employee Share Allotment		(254,000)	-	-	-
Depreciation and amortisation expenses	3	(550,040)	(175,901)	-	-
Borrowing costs expense	3	(11,197)	(24,707)	-	-
Royalties		(90,921)	(153,557)	-	-
Research & Development consumables, Subcontract services		(500)	(24,142)	-	-
Premises Rentals		(123,556)	(85,783)	-	-
Travelling & Accommodation		(90,123)	(76,046)	-	-
Advertising, Marketing & Promotion expenditures		(92,318)	(83,272)	-	-
Other expenses from ordinary activities		(625,914)	(468,331)	(2,975)	(24,045)
Reversal of Provision for Diminution of Investment		-	-	2,475,000	-
<b>Profit/(Loss) from ordinary activities before income tax expense</b>		<b>795,961</b>	<b>150,565</b>	<b>2,472,025</b>	<b>(24,045)</b>
Income Tax Expense relating to ordinary activities	4	503,382	-	54,111	-
<b>Profit/(Loss) from ordinary activities after related income tax expense</b>		<b>1,299,343</b>	<b>150,565</b>	<b>2,526,136</b>	<b>(24,045)</b>
<b>Net Profit/(Loss)</b>		<b>1,299,343</b>	<b>150,565</b>	<b>2,526,136</b>	<b>(24,045)</b>

Net profit/(Loss) attributed to members of the parent entity	1,299,343	150,565	2,526,136	(24,045)
Total revenues, expenses and valuation adjustments attributable to members of the parent entity and recognised directly in equity	1,299,343	150,565	2,526,136	(24,045)
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of the parent entity	1,299,343	150,565	2,526,136	(24,045)



**STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2004**

	Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash assets		2,623,559	577,604	674,096	297
Receivables	5	1,913,545	1,003,898	-	5,117
Inventories	6	-	206,756	-	-
Other	7	71,860	26,324	41,088	-
<b>TOTAL CURRENT ASSETS</b>		<b>4,608,964</b>	<b>1,814,582</b>	<b>715,184</b>	<b>5,414</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	8	-	-	903,703	1,391,101
Investments	9	-	-	2,955,000	480,000
Property, plant and equipment	10	489,996	304,617	-	-
Deferred Tax Assets	4	503,382	-	503,382	-
Intangible assets	11	623,919	964,775	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,617,297</b>	<b>1,269,392</b>	<b>4,362,085</b>	<b>1,871,101</b>
<b>TOTAL ASSETS</b>		<b>6,226,261</b>	<b>3,083,974</b>	<b>5,077,269</b>	<b>1,876,515</b>
<b>CURRENT LIABILITIES</b>					
Payables	12	2,390,982	1,250,111	21,017	20,499
Interest-bearing liabilities	13	27,431	15,634	-	-
Provisions	14	377,602	129,966	-	-
Other	15	-	300,000	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,796,015</b>	<b>1,695,711</b>	<b>21,017</b>	<b>20,499</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing liabilities	16	151,589	83,049	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>151,589</b>	<b>83,049</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>2,947,604</b>	<b>1,778,760</b>	<b>21,017</b>	<b>20,499</b>
<b>NET ASSETS</b>		<b>3,278,657</b>	<b>1,305,214</b>	<b>5,056,252</b>	<b>1,856,016</b>
<b>EQUITY</b>					
Contributed Equity	17	5,332,668	4,658,568	5,332,668	4,658,568
(Accumulated Losses)/ Retained profits	18	(2,054,011)	(3,353,354)	(276,416)	(2,802,552)
<b>TOTAL EQUITY</b>		<b>3,278,657</b>	<b>1,305,214</b>	<b>5,056,252</b>	<b>1,856,016</b>

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2004**

	Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts for customers		14,575,138	6,975,861	-	-
Payments to suppliers and employees		(12,630,973)	(6,505,668)	(38,418)	(33,577)
Interest received		40,275	-	-	-
Interest Paid		(11,197)	(22,763)	-	-
Net cash provided by (used in) operating activities	19	1,973,243	447,430	(38,418)	(33,577)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Acquisition of property, plant and equipment		(384,312)	(63,590)	-	-
Proceeds from/to Related Parties		(300,000)	300,000	-	-
Advances from/to subsidiary		-	-	33,000	33,373
Advances to related parties		5,117	(7,830)	5,117	-
Net cash provided by (used in) investing activities		(679,195)	228,580	38,117	33,373
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Advance From Visa		(1,400)	4,047	-	-
Proceeds from issue of shares		674,100	-	674,100	-
Repayment of borrowings		(24,793)	(101,373)	-	-
Finance lease principal		104,000	(54,261)	-	-
Advances from Directors		-	(25,000)	-	-
Net cash provided by (used in) financing activities		751,907	(176,587)	674,100	-
Net Increase in Cash Held		2,045,955	499,423	673,799	(204)
Opening Cash Balance		577,604	64,976	297	501
Effect of exchange rates on cash holdings in foreign currencies		-	13,205	-	-
Closing Cash Balance	19	2,623,559	577,604	674,096	297

## NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2004

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the economic entity of M2 Telecommunications Group Ltd and controlled entities, and M2 Telecommunications Group Ltd as an individual parent entity. M2 Telecommunications Group Ltd is an unlisted public company, incorporated and domiciled in Australia.

The financial statements have been prepared in accordance with the historical cost convention and are prepared on an accrual basis.

The financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

#### (a) Principles of consolidation

A controlled entity is any entity controlled by M2 Telecommunications Group Ltd. Control exists where M2 Telecommunications Group Ltd 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 M2 Telecommunications Group Ltd to achieve the objectives of M2 Telecommunications Group Ltd. A List of controlled entities is contained in Note 9 to the financial statements.

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

Where controlled entities have entered or left the economic entity during the year, their operation results have been included from the date control was obtained or until the date control ceased.

#### (b) Foreign currencies

##### *Translation of foreign currency transactions*

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the average exchange rate for the financial year.

##### *Translation of financial reports of overseas operations*

All overseas operations are deemed integrated as each is financially and operationally dependent on M2 Telecommunications Group Ltd. As such they are translated using the temporal method with any difference upon translation being taken to the Statement of Financial Performance. This is disclosed where material.

#### (c) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at the lower of cost and net realisable value. For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

#### (d) Trade and other receivables

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

Receivables from related parties are recognised and carried at the nominal amount due.

**NOTES continued  
AS AT 30 JUNE 2004**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(e) Inventories**

*Manufacturing and maintenance*

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

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in-first-out basis; and
- Finished goods – purchase cost on a first-in-first-out basis.

**(f) Property, plant and equipment**

*Cost and valuation*

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets, the recoverable amount is assessed on the bases of the expected net cash flows, which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

In effect it is recorded at the lower of cost and recoverable amount.

*Depreciation*

The depreciable amount of all fixed assets including capital lease assets is depreciated on a straight line basis over the useful lives to the economic entity 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 the improvements.

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	10% - 100 %
Leased plant and equipment	10% - 40 %

**(g) Leases**

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

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

Lease incentives under operating leases are recognised as a liability. Lease payments received reduce the liability.

NOTES continued  
AS AT 30 JUNE 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Intangibles

*Trademarks and Licences*

Trademarks and Licences represents the consideration paid over the fair value of identifiable net tangible assets acquired at the time of acquisition of the Messagemate business.

The trademarks and licenses are subject to an agreement between RVA Systems Pty Ltd and M2, and the assets are being amortised at the same rate as revenue is generated.

(i) Research & Development Expenditure

*Research and development costs*

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. Where research and development costs are deferred such costs are amortised over future Periods on a basis related to expected future benefits. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount identified is written off.

The directors have resolved to expense all Research & Development expenditure.

All employee costs related to Research & Development are included under employment expenses.

(j) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

(k) Loans and borrowings

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

Finance lease liability is determined in accordance with the requirement of AASB 1008 : Accounting for Leases.

(l) Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**NOTES continued  
AS AT 30 JUNE 2004**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(m) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*

- Control of the goods has passed to the buyer.

*Rendering of services*

- Where the contract outcome can be reliably measured:

- control of a right to be compensated for the services has been attained and the stage of completion can be reliably measured. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract.

- Where the contract outcome cannot be reliably measured:

- revenue is recognised only to the extent that costs have been incurred.

*Interest & Rental*

- Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

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

**(n) Investments in Subsidiaries**

Investments in subsidiaries are recognised in the financial statements at directors' assessment of net recoverable amount.

**(o) Income tax**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Where assets are re-valued no provision for potential capital gains tax has been made.

The income tax expense for the year is calculated using the 30% tax rate.

**NOTES continued  
AS AT 30 JUNE 2004**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(p) Employee Entitlements**

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

Liabilities arising in respect of annual leave, sick leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attached to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

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

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- other types of employee entitlements are charged against profits on a net basis in their respective categories.

**(q) Period of Accounts**

M2 Telecommunications Pty Ltd was incorporated on 29 October 1999.

Trading operations commenced on 15 December 1999 after the acquisition of the assets of Messagemate Australia Pty Ltd.

M2 Telecommunications Group Ltd was incorporated on 14 February 2000.

NOTES continued  
AS AT 30 JUNE 2004

Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 2: Revenue</b>				
Operating Activities				
- sale of goods	14,948,375	7,300,598	-	-
- interest received	40,275	4,701	-	-
- license income	228,774	-	-	-
- other revenue	-	22,049	-	-
- rental revenue	88,876	94,103	-	-
- services revenue	30,001	64,608	-	-
	<u>15,336,301</u>	<u>7,486,059</u>	-	-
Non-operating activities				
- proceeds on disposal of property	-	-	-	-
- proceeds on disposal of non-current investments	-	-	-	-
	<u>-</u>	<u>-</u>	-	-
<b>Total Revenue</b>	<b>15,336,301</b>	<b>7,486,059</b>	<b>-</b>	<b>-</b>
<b>Note 3: Profit/(Loss) from Ordinary Activities</b>				
Profit/(Loss) from ordinary activities before income tax has been determined after charging the following items :				
Cost of sales	11,241,170	4,959,523	-	-
Amortisation of non-current assets				
Trademarks and licences	233,443	38,016	-	-
Write off of Trademarks and Licences	117,664	-	-	-
Plant and equipment under lease	-	43,407	-	-
Total Amortisation	<u>351,107</u>	<u>81,423</u>	-	-
Depreciation of non-current assets				
Plant and equipment	198,933	94,478	-	-
Bad and doubtful debts				
Trade debtors – other persons/bodies corporate	44,337	19,934	-	-
Borrowing costs expensed				
Interest expense	11,197	21,434	-	-
Other borrowing costs				
Finance charges – lease liability	-	3,273	-	-
Total borrowing costs	<u>11,197</u>	<u>24,707</u>	-	-
Other Provisions				
Provision for employee entitlements	(6,364)	49,573	-	-



NOTES continued  
AS AT 30 JUNE 2004

Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 4: Income Tax</b>				
The prima facie tax, using tax rates applicable in the country of operation, on operating profit/(loss) differs from the income tax provided in the financial statements as follows:				
Prima facie tax on operating profit/(loss)	238,788	45,170	741,608	(6,614)
Tax effect of permanent differences				
Amortisation of intangible assets	10,872	13,022	-	-
Employee Share Allotment	76,200	-	-	-
Reversal of Provision for Diminution of Investment	-	-	(742,500)	-
Other items (net)	5,849	(7,849)	(4,235)	-
Income tax expense attributable to operating profit	331,709	50,343	(5,127)	(6,614)
Add future income tax benefit brought to account	(835,600)	(50,343)	(48,984)	6,614
Income tax expense attributable to operating activities	(503,882)	-	(54,111)	-
Future income tax benefit				
- timing differences	356,558	-	356,558	-
- tax losses	146,824	-	146,824	-
	503,382	-	503,382	-
Income Tax Losses				
Future income tax benefit arising from tax losses of a controlled entity not recognised at reporting date as realisation of the benefit is not regarded as virtually certain	-	792,555	-	6,614

Due to the current year profitability and forecast future profitability, recovery of the prior year tax losses is virtually certain and has been taken to account in the current year.

NOTES continued  
AS AT 30 JUNE 2004

Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 5: Receivables</b>				
Trade debtors	1,975,890	1,016,789	-	-
Provision for doubtful debts	(62,345)	(18,008)	-	-
	<u>1,913,545</u>	<u>998,781</u>	-	-
Other related parties				
- additional related parties	-	21,954	-	5,117
- Provision for doubtful debts for related parties	-	(16,837)	-	-
(These amounts relate to the purchase of the Messagemate business and are currently being negotiated. A provision has been raised as the level of recovery is uncertain.)				
	<u>1,913,545</u>	<u>1,003,898</u>	-	<u>5,117</u>
(a) Movement in provision for doubtful debts				
- balance at beginning of year	(34,845)	(22,929)	-	-
- bad and doubtful debts provided for during the year	(27,500)	(11,916)	-	-
- balance at end of year	(62,345)	(34,845)	-	-
(b) Terms and conditions relating to the above financial statements				
(i) Credit sales are on 7 to 30 day terms				

**NOTES continued  
AS AT 30 JUNE 2004**

Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 6: Inventories</b>				
Raw material and stores – at cost	-	10,056	-	-
Finished goods – at cost	-	196,700	-	-
Total inventories at lower of cost and net realisable value	-	206,756	-	-
<b>Note 7: Other Current Assets</b>				
Prepayments				
- costs associated with IPO	41,088	-	41,088	-
Other	30,772	26,324	-	-
	71,860	26,324	41,088	-
<b>Note 8: Receivables (Non-Current)</b>				
Wholly Owned Group				
- controlled entities	-	-	903,703	1,391,101
	-	-	903,703	1,391,101
<b>Note 9: Controlled Entities</b>				
(a) Controlled entities				
	Country of Incorporation		Percentage owned (%)	
			2004	2003
Parent Entity:				
M2 Telecommunications Group Ltd	Aust			
Subsidiaries of M2 Telecommunications Group Ltd:				
M2 Telecommunications Pty Ltd	Aust		100	100
M2 New Zealand Ltd	NZ		100	100
		2004	2003	2004
		\$	\$	\$
Investment in Subsidiaries		-	-	2,955,000
Less Provision for diminution		-	-	(2,475,000)
Net Carrying Amount		-	-	480,000

NOTES continued  
AS AT 30 JUNE 2004

Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 10: Property, Plant &amp; Equipment</b>				
Plant and equipment				
At cost	860,382	496,805	-	-
Provision for depreciation	(409,851)	(237,903)	-	-
	450,531	258,902	-	-
Service Equipment				
At cost	62,331	62,331	-	-
Provision for depreciation	(22,866)	(16,616)	-	-
	39,465	45,715	-	-
Plant and equipment under finance lease				
At cost	135,786	135,786	-	-
Provision for amortisation	(135,786)	(135,786)	-	-
	-	-	-	-
Total property, plant and equipment				
Cost	1,058,499	694,922	-	-
Provision for depreciation and amortisation	(568,503)	(390,305)	-	-
Total written down amount	489,996	304,617	-	-

## Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Plant and Equipment	Service Equipment	Leased Plant & Equipment	Total
Consolidated:				
Balance at the beginning of year	258,902	45,715	-	304,617
Additions	384,312	-	-	384,312
Disposals	-	-	-	-
Additions through acquisition of entity	-	-	-	-
Depreciation expense	(192,683)	(6,250)	-	(198,933)
Capitalised borrowing costs and depreciation	-	-	-	-
Carrying amount at the end of the year	450,531	39,465	-	489,996

NOTES continued  
AS AT 30 JUNE 2004

Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 11: Intangibles</b>				
Trademarks and licenses – at cost	1,104,317	1,094,066	-	-
Provision for amortisation	(480,398)	(129,291)	-	-
	623,919	964,775	-	-
<b>Note 12: Payables</b>				
Trade creditors	1,119,890	632,078	-	-
Other creditors	1,210,504	585,391	21,017	20,499
Withholding Tax Payable	31,531	22,172	-	-
Goods and Services Tax	29,057	10,470	-	-
	2,390,982	1,250,111	21,017	20,499
<b>Note 13: Interest Bearing Liabilities (Current)</b>				
Borrowings – secured				
Bank loans	27,431	15,634	-	-
	27,431	15,634	-	-

Terms and conditions relating to the above financial instruments

(i) The bank loans are repayable monthly. Interest rates are 7.39% and 6.62%.

The bank loans are secured directly over the assets financed.

NOTES continued  
AS AT 30 JUNE 2004

	Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>Note 14: Provisions</b>					
Provision for Employee Share Allocation		254,000	-		
Employee entitlements	21	123,602	129,966	-	-
		377,602	129,966	-	-
<b>Note 15: Other (Current)</b>					
Loans from related parties – Secured by Registered Equitable Charge over assets of the company					
- MGB Holdings Pty Ltd		-	300,000	-	-
		-	300,000	-	-
<b>Note 16: Interest Bearing Liabilities (Non- Current)</b>					
Borrowings – secured					
Bank loans		151,589	83,049	-	-
		151,589	83,049	-	-
Terms and conditions relating to the above financial instruments					
(i) The bank loans are repayable monthly. Interest rates are 7.39% and 6.62%. The bank loans are secured directly over the assets financed.					

**NOTES continued  
AS AT 30 JUNE 2004**

Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 17: Contributed Equity</b>				
<b>Issued and paid up capital</b>				
Ordinary Shares				
At the beginning of the reporting Period	4,658,568	4,658,568	4,658,568	4,658,568
Shares Issued during the year				
- Options exercised	674,100	-	674,100	-
	<u>674,100</u>	<u>-</u>	<u>674,100</u>	<u>-</u>
At reporting date	<u>5,332,668</u>	<u>4,658,568</u>	<u>5,332,668</u>	<u>4,658,568</u>
<b>Number of Shares</b>				
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
At the beginning of reporting Period	43,082,563	43,082,563	43,082,563	43,082,563
Shares issued during the year				
- Options exercised	3,370,500	-	3,370,500	-
At reporting date	<u>46,453,063</u>	<u>43,082,563</u>	<u>46,453,063</u>	<u>43,082,563</u>
All shares on issue are fully paid				
<b>Number of Options</b>				
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
At the beginning of reporting Period	28,862,800	28,862,800	28,862,800	28,862,800
Options Issued/(Exercised) during the year				
- Options exercised	(3,370,500)	-	(3,370,500)	-
- Options Expired	(25,492,300)	-	(25,492,300)	-
At reporting date	<u>-</u>	<u>28,862,800</u>	<u>-</u>	<u>28,862,800</u>

**NOTES continued  
AS AT 30 JUNE 2004**

Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
	2004 \$	2003 \$	2004 \$	2003 \$
<b>Note 18: (Accumulated Losses)/Retained Profits</b>				
(Accumulates Losses)/Retained Profits at the beginning of the financial year	(3,353,354)	(3,503,919)	(2,802,552)	(2,778,507)
Net Operating Profit/(Loss)	1,299,343	150,565	2,526,136	(24,045)
(Accumulated Losses)/Retained Profits at the end of the financial year	(2,054,011)	(3,353,354)	(276,416)	(2,802,552)

**Note 19: Cash Flow Information**

- (a) Reconciliation of Cash Flow from Operations with Profit from ordinary activities after Income Tax

Profit from ordinary activities after income tax	1,299,343	150,565	2,526,136	(24,045)
Non-cash flows in profit from Ordinary activities				
Amortisation	351,107	81,423	-	-
Depreciation	198,933	94,478	-	-
Provision for employee entitlements	(6,364)	49,573	-	-
Provision for employee share allotment	254,000	-	-	-
Provision for doubtful debts	27,500	11,916	-	-
Provision for Reversal of Diminution of Investment	-	-	(2,475,000)	-
Net Loss on disposal of property, plant & equipment	4,362	-	-	-
Changes in assets and liabilities, net of the effects of purchases and disposal of subsidiaries				
Increase in trade and term debtors	(937,147)	(433,751)	-	-
Increase in prepayments	-	1,917	-	-
Increase in inventories	206,756	234,471	-	-
Increase in FITB	(503,382)	-	(48,984)	-
Increase in trade creditors and accruals	1,123,671	273,205	518	(9,532)
Increase in Other Assets	(45,536)	(16,367)	(41,088)	-
Net cash flow (used in) operating activities	1,973,243	447,430	(38,418)	(33,577)



NOTES continued  
AS AT 30 JUNE 2004

Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
	2004 \$	2003 \$	2004 \$	2003 \$
<b>Note 19: Cash Flow Information (Cont.)</b>				
(b) Reconciliation of Cash Flows				
Cash balance comprises				
Cash on hand	400	800	-	-
Cash at bank	994,817	276,804	674,096	297
Deposits	1,628,342	300,000	-	-
Closing bank balance	<u>2,623,559</u>	<u>577,604</u>	<u>674,096</u>	<u>297</u>

NOTES continued  
AS AT 30 JUNE 2004

	Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>Note 20: Expenditure Commitments</b>					
(a)	Lease expenditure commitments				
	(i) <i>Operating leases (non-cancellable):</i>				
	Minimum lease payments				
	- not later than one year	39,029	21,728	-	-
	- later than one year and not later than five years	170,168	95,808	-	-
	- aggregate lease expenditure contracted for at balance date	209,197	117,536	-	-
(b)	Royalty Expenditure Commitments				
	A product royalty is payable to Datis Technology Pty Ltd in respect of products sold in each financial quarter at the rate of five (5) per centum of the net receipts during the relevant quarter, subject to agreed performance targets. Royalty payments are due and payable 60 days after the end of each of the financial quarters to which they relate.				

**Note 21: Employee Entitlement & Employee Numbers****Employee Entitlements**

The aggregate employee entitlement liability is comprised of

Provisions (current)	14	123,602	129,966	-	-
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**Employee Numbers**

The number of employees at 30 June 2004 were 35

**NOTES continued  
AS AT 30 JUNE 2004**

Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 22: Subsequent Events</b>				
Please refer to the Managing Directors Report on page 2.				
<b>Note 23: Remuneration and Retirement Benefits</b>				
(a) Directors Remuneration				
Income paid or payable to all directors of each entity in the economic entity by the entities of which they are directors and any related parties	164,750	228,132	-	-
Income paid or payable to all directors of the parent entity by the parent entity and related parties				
Number of parent entity directors whose income from the parent entity and any related parties fall within the following bands:			No.	No.
\$0 - \$9,999			3	3
\$10,000 - \$19,999			1	-
\$60,000 - \$69,999			-	1
\$140,000 - \$149,999			-	1
\$150,000 - \$159,999			1	-
The names of parent entity directors who have held office during the financial year are:				
	<b>Appointed</b>		<b>Resigned</b>	
V.G. Bowen	15 February 2000			
D.N. Basheer	15 February 2000			
M.G. Bowen	18 February 2000			
C.L. Farrow	18 February 2000			
J.S. Hynd	18 February 2000			
(b) Executive Remuneration				
Remuneration received or due and receivable by executive officers of the economic entity, from entities in the economic entity and any related entities for management of the affairs of the economic entity, whose remuneration is \$100,000 or more. This amount was paid by the subsidiary.	144,423	103,801	-	-

NOTES continued  
AS AT 30 JUNE 2004

Notes	CONSOLIDATED		M2 TELECOMMUNICATIONS GROUP LTD	
	2004 \$	2003 \$	2004 \$	2003 \$
<b>Note 24: Auditors Remuneration</b>				
Amounts received or due and receivable by the auditors of M2 Telecommunication Group Ltd for:				
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	20,000	20,000	20,000	20,000

Ernst & Young, Australia are auditors of the holdings company and all subsidiaries.

**Note 25: Related Party Transactions**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated

a) Transactions with Related parties:

*Transactions with director related parties*

Accountancy fees were paid (or were payable) to Brentnalls SA under discounted terms and conditions. C.L. Farrow is a partner of the firm Brentnalls SA	22,811	10,152	-	10,032
Legal fees were paid (or were payable) to Hynd & Co Pty Ltd under discounted terms and conditions. J.S. Hynd is a director of the firm Hynd & Co Pty Ltd	42,804	29,262	-	-
A cash deposit was loaned from MGB Holdings Pty Ltd. An Equitable Charge is held for this deposit.	-	300,000	-	-
Commission payments were paid to Dennis N Basheer Nominees on commercial terms. Dennis Basheer is a director of Dennis N Basheer Nominees.	10,012	-	-	-

**NOTES continued**  
**AS AT 30 JUNE 2004**

## (b) Equity instruments of directors

- (i) *Interests in the equity instruments of entities in the consolidated entity held by directors of the reporting entity and their director-related entities at balance date, being the number of instruments held.*

	M2 Telecommunications Group Ltd	M2 Telecommunications Group Ltd	M2 Telecommunications Pty Ltd
	<i>Ordinary Shares Fully Paid</i> 2004	<i>Options over Ordinary Shares</i> 2004	<i>Options over Ordinary Shares</i>
V.G. Bowen	750,000	-	-
D.N. Basheer	5,304,906	-	-
J. S. Hynd	2,832,524	-	-
M.G. Bowen	18,584,146	-	-
C.L. Farrow	1,500,000	-	-

	M2 Telecommunications Group Ltd	M2 Telecommunications Group Ltd	M2 Telecommunications Pty Ltd
	<i>Ordinary Shares Beneficially Held</i> 2004	<i>Options over Ordinary Shares Beneficially Held</i> 2004	<i>Options over Ordinary Shares Beneficially Held</i>
V.G. Bowen	750,000	-	-
D.N. Basheer	-	-	-
J. S. Hynd	-	-	-
M.G. Bowen	-	-	-
C.L. Farrow	-	-	-

- (c) All financial benefits provided by M2 Telecommunications Group Ltd or its controlled entities to related parties were provided on arm's length terms.

**NOTES continued**  
**AS AT 30 JUNE 2004**

**Note 26: Segment Information****(a) Primary Segment**

Business Segments	Telecommunications Products		Telecommunications Service Provider		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
<b>Revenue</b>								
Sales to customers outside the consolidated entity	1,054,881	1,969,066	14,281,420	5,557,726	-	(40,733)	15,336,301	7,486,059
Other revenues from customers outside the consolidated entity	-	-	-	-	-	-	-	-
Inter-segment revenues	-	-	-	-	-	-	-	-
Share of net profit of equity accounted investments	-	-	-	-	-	-	-	-
<b>Total segment revenue</b>	<b>1,054,881</b>	<b>1,969,066</b>	<b>14,281,420</b>	<b>5,557,726</b>	<b>-</b>	<b>(40,733)</b>	<b>15,336,301</b>	<b>7,486,059</b>
Unallocated Revenue							-	-
<b>Total consolidated revenue</b>							<b>15,336,301</b>	<b>7,486,059</b>
<b>Results</b>								
Segment result	(19,876)	22,107	815,837	192,549	-	695	795,961	215,351
Unallocated expenses							-	64,786
Consolidated entity profit from ordinary activities after income tax expense							795,961	150,565
Income tax expense							(503,382)	-
Consolidated entity profit from ordinary activities after income tax expense							1,299,343	150,565
Extraordinary item							-	-
<b>Net Profit</b>							<b>1,299,343</b>	<b>150,565</b>

**NOTES continued  
AS AT 30 JUNE 2004**

**Note 26: Segment Information****(a) Primary Segment**

Business Segments	Telecommunications Products		Telecommunications Service Provider		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
<b>Assets</b>								
Segment Assets	1,997,273	2,107,875	4,054,303	1,298,205	(707,242)	(327,520)	5,344,334	3,078,560
Unallocated Assets							881,927	5,414
Total Assets							6,226,261	3,083,974
<b>Liabilities</b>								
Segment Liabilities	994,944	2,063,542	3,323,787	1,386,500	(707,242)	(327,520)	4,060,760	3,122,522
Unallocated Liabilities					(903,703)	(1,391,101)	239,818	47,339
Total Liabilities							2,947,604	1,778,760
<b>Other segment information:</b>								
Equity accounted investments included in segment assets	-	-	-	-	-	-	-	-
Acquisition of property, plant and equipment, intangible assets and other non-current assets	-	9,819	384,312	182,931	-	-	384,312	192,750
Depreciation	31,718	61,066	167,215	33,412	-	-	198,933	94,478
Amortisation	351,107	81,423	-	-	-	-	351,107	81,423
Non-cash expenses other than depreciation and amortisation	-	53,780	66,685	-	-	-	66,685	53,780

**NOTES continued  
AS AT 30 JUNE 2004**

**Note 26: Segment Information**

**(b) Secondary Segment**

Geographic Segments	Australia		Non-Australian Companies		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
<b>Segment revenue</b>	15,302,610	7,031,031	33,691	455,028	-	-	15,336,301	7,486,059
<b>Segment Assets</b>	6,226,261	3,083,974	-	-	-	-	6,226,261	3,083,974
<b>Other segment information:</b>								
Acquisition of property, plant and equipment, intangible assets and other non-current assets	384,312	192,750	-	-	-	-	384,312	192,750



NOTES continued  
AS AT 30 JUNE 2004

Note 27: Financial Instruments

(a) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Floating Interest Rates		Fixed interest rate maturing in :				Non-interest bearing		Total carrying amount as per Balance Sheet		Weighted average effective interest rate		Contract repricing or maturity date
			1 year or less		Over 1 to 5 years						2004 %	2003 %	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003			
<i>(i) Financial assets</i>													
Cash	994,817	276,804	-	-	-	-	400	800	995,217	277,604	3.56%	3.56%	at call
Receivables - trade	-	-	-	-	-	-	1,913,545	1,003,898	1,913,545	1,003,898	N/A	N/A	
Receivables - related parties/entities	-	-	-	-	-	-	-	-	-	-	N/A	N/A	
Short Term Deposits	-	-	1,628,342	307,738	-	-	-	-	1,628,342	307,738	5.23%	4.69%	fixed rate finance contracts
Total financial assets	994,817	276,804	1,628,342	307,738	-	-	1,913,945	1,004,698	4,537,104	1,589,240			
<i>(ii) Financial Liabilities</i>													
Bank Loans	-	-	-	-	-	-	-	-	-	-	N/A	N/A	fixed rate finance contracts
Trade Creditors and accruals	-	-	-	-	-	-	2,390,982	1,250,111	2,390,982	1,250,111	N/A	N/A	
Finance lease liability	-	-	-	-	-	-	-	-	-	-	N/A	N/A	fixed rate finance contract
Deferred cash settlements	-	-	-	-	-	-	-	-	-	-	N/A	N/A	
Total Financial Liabilities	-	-	-	-	-	-	2,390,982	1,250,111	2,390,982	1,250,111			

**NOTES continued  
AS AT 30 JUNE 2004**

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

*Net fair values*

The aggregate net fair values of financial assets and financial liabilities both recognised and unrecognised, at balance date, are as follows.

	2004 \$		2003 \$	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
<b>(i) Financial assets</b>				
Cash	995,217	995,217	277,604	277,604
Short term deposits	1,913,545	1,913,545	307,738	307,738
Receivables	1,628,342	1,628,342	1,003,898	1,003,898
Total financial assets	4,537,104	4,537,104	1,589,240	1,589,240
<b>(ii) Financial liabilities</b>				
Trade creditors and accruals	2,390,982	2,390,982	1,250,111	1,250,111
Borrowings	-	-	-	-
Deferred cash settlement	-	-	-	-
Total financial liabilities	2,390,982	2,390,982	1,250,111	1,250,111

*The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.*

**Recognised financial instruments**

*Cash, cash equivalents and short term deposits* : The carrying amount approximates fair value because of their short-term to maturity.

*Borrowings* : carrying amount approximates fair value because of their short term to maturity.

**Credit risk**

The company's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet.

**NOTES continued  
AS AT 30 JUNE 2004**

**Note 28: Impact of adopting AASB equivalents to IASB Standards**

The Financial Reporting Council has announced that Australia will adopt standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. First time application of Australian International Financial Reporting Pronouncements (AIFRP) to M2 will be for the financial year ending 30 June 2006 (inclusive of prior period comparatives). Pending standards have been released, with further standards to come M2 is continuing to evaluate the impact that these new standards will have and adoption of AIFRP may result in changes to accounting policies that have significant impacts on the financial statements of M2. M2 currently expects that the most significant impacts will be in the areas described below. Reliable estimation of the impacts will depend on the particular circumstances and conditions prevailing at the time of application of AIFRP.

**Impairment of Assets**

Under the Australian equivalent to "IAS 36 Impairment of Assets" the recoverable amount of an asset is determined as the higher of the net selling price and value in use. Whilst this is different to the current treatment of Licenses and Distribution Rights, it is unlikely to lead to a significant change from current treatment.

**DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of M2 Telecommunications Group Ltd, I state that :

- (1) In the opinion of the directors:
- (a) the financial statements and notes of the company and of the consolidated entity are in accordance with 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 2004 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and Corporations Regulations; and
  - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**Vaughan Bowen**  
**Managing Director**

Dated at Melbourne this 31<sup>st</sup> day of August 2004