

# **TWO WAY TV AUSTRALIA LIMITED & CONTROLLED ENTITIES**

ABN 28 007 424 777

**ASX Preliminary final report – 30 June 2005**

Lodged with the ASX under Listing Rule 4.3.A

This information should be read in conjunction with the 30 June 2005 Annual Report

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Two Way TV Australia Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

## Corporate Information

ABN 28 007 424 777

### Directors

Mr Stuart James McGregor (Chairman)  
Mr James Edward McKay (Managing Director)  
Mr James David McKerlie (Non-Executive Director)  
Mr Joshua Adam Mantello (Non-Executive Director)  
Mr Marco Salvatore Carlei (Non-Executive Director)  
Mr Samuel Hewlings Chisholm (resigned 10 November 2004)

### Company Secretary

Mr Ben Reichel

### Registered Office

Level 3  
55 Pyrmont Bridge Road  
Pyrmont NSW 2009

### Bankers

ANZ Banking Group

### Share Register

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford Victoria 3067

### Auditors

William Buck Chartered Accountants

## Results for Announcement to the Market

<b>Revenue</b> from ordinary activities	Up	1,881%	To	1,249,430
<b>Loss</b> from ordinary activities after tax attributable to members	Up	7%	To	(2,144,114)
<b>Net Loss</b> for the period attributable to members	Up	7%	To	(2,144,114)

### Dividends/distributions

The directors do not recommend the payment of a dividend.

Reporting Period: Year ended 30 June 2005

Previous Corresponding Period: Year ended 30 June 2004

## Review of Operations

A summary of consolidated revenues and results is set out below:

	Note	Consolidated	
		2005	2004
		\$	\$
<b>Revenue</b>			
Service		562,799	62,228
Interest – other persons		677,131	841
Other		9,500	-
<b>Total revenue</b>		<b>1,249,430</b>	<b>63,069</b>
<b>Expenses</b>			
Employee benefits expenses		(959,590)	(607,682)
Borrowing costs		(52,749)	(12,019)
Depreciation and amortisation		(112,804)	(77,918)
Operations and administration		(2,268,401)	(1,369,533)
<b>Expenses from ordinary activities</b>		<b>(3,393,544)</b>	<b>(2,067,152)</b>
<b>Loss from ordinary activities before income tax</b>		<b>(2,144,114)</b>	<b>(2,004,083)</b>
Income tax attributable to operating profit		-	-
<b>Net loss attributable to members</b>		<b>(2,144,114)</b>	<b>(2,004,083)</b>

Comments on the operations and results of those operations are set out below:

### Explanation of revenue

- service revenue, which comprises games and other interactive applications, was significantly up on previous years reflecting the first full year and ramp up of the Company's digital offering, which was launched in April 2004.
- interest income is underpinned by the large cash balance held as a result of the public share issue in December 2004.

### Explanation of net loss

- Two Way TV's consolidated net loss for the period was \$2,144,114 (2004: \$2,004,083). This represents a 7% increase on the prior year and reflects the ramp up of the Company's activities as a result of securing the necessary funding to pursue its opportunities, both in Australia/NZ and Asia (as detailed in the Company's prospectus).

**1. PRELIMINARY CONSOLIDATED STATEMENT OF THE FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED  
30 JUNE 2005**

	Note	Consolidated	
		2005 \$	2004 \$
Revenue from ordinary activities	4.1	1,249,430	63,069
Employee benefits expense		(959,590)	(607,682)
Depreciation and amortisation		(112,804)	(77,918)
Professional and consulting fees		(712,539)	(337,660)
Travel		(457,176)	(107,812)
Licence fees		(285,878)	(250,000)
Administration expenses		(376,009)	(237,436)
Borrowing costs		(52,749)	(12,019)
Other expenses from ordinary activities		<u>(436,799)</u>	<u>(436,625)</u>
Loss from ordinary activities before tax		(2,144,114)	(2,004,083)
Income tax relating to ordinary activities	4.2	<u>-</u>	<u>-</u>
Loss from ordinary activities after tax		<u>(2,144,114)</u>	<u>(2,004,083)</u>
NET LOSS		<u>(2,144,114)</u>	<u>(2,004,083)</u>
Basic earnings per share (cents per share)	4.7	(3.29)	-
Diluted earnings per share (cents per share)	4.7	(3.29)	-

*The above preliminary consolidated statement of financial performance should be read in conjunction with the accompanying notes.*

**2. PRELIMINARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED  
30 JUNE 2005**

	Note	Consolidated	
		2005 \$	2004 \$
<b>CURRENT ASSETS</b>			
Cash	4.4	19,734,917	30,399
Receivables		142,836	25,663
Other		105,484	330,050
<b>TOTAL CURRENT ASSETS</b>		<b>19,983,237</b>	<b>386,112</b>
<b>NON-CURRENT ASSETS</b>			
Receivables		-	-
Plant and equipment		573,588	116,452
Intangible assets	4.5	11,012,185	-
Other		705,163	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>12,290,936</b>	<b>116,452</b>
<b>TOTAL ASSETS</b>		<b>32,274,173</b>	<b>502,564</b>
<b>CURRENT LIABILITIES</b>			
Payables		451,357	1,310,214
Interest bearing liabilities		-	302,000
Provisions		200,062	681,899
<b>TOTAL CURRENT LIABILITIES</b>		<b>651,419</b>	<b>2,294,113</b>
<b>TOTAL LIABILITIES</b>		<b>651,419</b>	<b>2,294,113</b>
<b>NET ASSETS</b>		<b>31,622,754</b>	<b>(1,791,549)</b>
<b>EQUITY</b>			
Contributed equity	4.6	52,813,875	9,597,954
Reserves	4.8	(7,674,698)	(17,194)
Accumulated losses	4.9	(13,516,423)	(11,372,309)
Parent entity interest		31,622,754	(1,791,549)
<b>TOTAL EQUITY</b>		<b>31,622,754</b>	<b>(1,791,549)</b>

*The above preliminary consolidated statement of financial position should be read in conjunction with the accompanying notes.*

**3. PRELIMINARY CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED  
30 JUNE 2005**

	Note	Consolidated	
		2005 \$	2004 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		507,288	36,564
Payments to suppliers and employees		(4,348,379)	(1,052,011)
Interest received		677,086	841
Borrowing costs		<u>(109,417)</u>	<u>(12,019)</u>
Net cash provided by (used in) operating activities	4.3	<u><b>(3,273,422)</b></u>	<u><b>(1,026,625)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment		(596,962)	(4,808)
Purchase of intangibles – Asian options		<u>(11,012,185)</u>	-
Net cash provided by (used in) investing activities		<u><b>(11,609,147)</b></u>	<u><b>(4,808)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares and options		40,000,010	1,059,652
Proceeds from borrowings		140,941	-
Repayment of borrowings		(1,034,344)	-
Payment of share issue expenses		<u>(4,519,520)</u>	-
Net cash provided by (used in) financing activities		<u><b>34,587,087</b></u>	<u><b>1,059,652</b></u>
Net increase in cash held		<b>19,704,518</b>	28,219
Cash at beginning of year		<u><b>30,399</b></u>	<u>2,180</u>
Cash at end of year	4.4	<u><b>19,734,917</b></u>	<u><b>30,399</b></u>

*The above preliminary consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

**4. NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30 JUNE 2005**

	Note	Consolidated	
		2005 \$	2004 \$
<b>Note 4.1: Revenue</b>			
Revenue from operating activities			
- Service revenue		<u>562,799</u>	62,228
Revenue from non-operating activities			
- Interest – other persons		677,131	841
- Proceeds on disposal of plant and equipment		<u>9,500</u>	-
		<u>686,631</u>	841
Total revenue		<u>1,249,430</u>	63,069
<b>Note 4.2: Income Tax Expense</b>			
Prima facie income tax/ (credit) calculated at 30% on the operating loss		(643,234)	(601,226)
Tax effect of permanent difference		(479,392)	(90,957)
Timing differences		(36,782)	(9,936)
Future income tax benefit not brought to account		<u>1,159,408</u>	702,119
Income tax attributable to operating loss		<u>-</u>	-
<b>Note 4.3: Reconciliation of loss from ordinary activities after tax to net cash inflow from operating activities</b>			
Loss from ordinary activities after income tax		(2,144,114)	(2,004,083)
Non-cash flows in profit from ordinary activities			
Depreciation		112,804	77,918
Net loss on disposal of plant and equipment		4,104	-
Foreign exchange loss		723	-
Change in assets and liabilities			
Increase/ (decrease) in receivables		(117,173)	(25,664)
Increase/ (decrease) in other assets		(480,597)	(226,837)
(Increase) /decrease in trade creditors and accruals		(167,331)	1,081,305
(Increase) /decrease in provisions		(481,838)	77,736
(Increase) /decrease in Interest Bearing Liabilities		-	(7,000)
Net cash inflow from operating activities		<u>(3,273,422)</u>	(1,026,625)

	Note	Consolidated	
		2005 \$	2004 \$
<b>Note 4.4: Cash Assets</b>			
Cash at bank		<b>19,734,917</b>	30,399
<b>Note 4.5: Intangibles</b>			
Asian licence options - at cost		<b>11,012,185</b>	-
<b>Note 4.6: Movement in ordinary share capital</b>			
90,000,000 (2004:54,100) fully paid ordinary shares		<b>52,813,875</b>	9,102,952
Ordinary share options		-	495,002
		<b>52,813,875</b>	<b>9,597,954</b>
<b>(a) Ordinary Shares</b>			
At the beginning of the reporting period		<b>9,102,952</b>	8,538,300
Shares issued during the year			
- 15,330 on 5 May 2004		-	564,652
- 5,772 on 9 November 2004 (share entitlements)		<b>119,913</b>	-
- 16,464 on 9 November 2004 (options exercised)		<b>495,010</b>	-
- 46,827,664 on 19 November 2004 (share split: 614,441,417 for 1)		-	-
- 3,096,000 on 19 November 2004		<b>3,096,000</b>	-
- 40,000,000 on 17 December 2004 (public offer)		<b>40,000,000</b>	-
At reporting date		<b>52,813,875</b>	9,102,952
		<b>Number</b>	Number
At the beginning of reporting period		<b>54,100</b>	35,960
Shares issued during the year			
- 5 <sup>th</sup> May 2004		-	18,140
- 9 <sup>th</sup> November 2004		<b>5,772</b>	-
- 9 <sup>th</sup> November 2004		<b>16,464</b>	-
- 19 <sup>th</sup> November 2004		<b>46,827,664</b>	-
- 19 <sup>th</sup> November 2004		<b>3,096,000</b>	-
- 17 <sup>th</sup> December 2004		<b>40,000,000</b>	-
At reporting date		<b>90,000,000</b>	54,100

	Note	Consolidated	
		2005 \$	2004 \$
<b>Note 4.7: Earnings per share</b>			
(a) Net Loss / Earnings used in the calculation of basic EPS		<u>(2,144,114)</u>	-
(a) Net Loss / Earnings used in the calculation of dilutive EPS		<u>(2,144,114)</u>	-
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS		<u>65,224,354</u>	-
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS		<u>65,224,354</u>	-

(c) Classification of Securities

The ownership-based remuneration scheme with 5 million shares remaining unconverted at year-end is not included in basic of dilutive EPS as the issue of shares is contingent upon future events. As at reporting date, conditions which would result in the issue of shares had not been obtained (*refer to Note 24*)

**Note 4.8: Reserves**

Share issue expense		<u>(7,674,698)</u>	(17,194)
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Consists of costs incurred in relation to the initial Public Offer (IPO)

**Note 4.9: Accumulated losses**

Accumulated losses at the beginning of the financial year		(11,372,309)	(9,368,226)
Accumulated losses for the current year		<u>(2,144,114)</u>	(2,004,083)
Accumulated losses at the end of the financial year		<u>(13,516,423)</u>	(11,372,309)

**Note 4.10: Impact of adopting Australian Equivalents to AIFRS**

The Company is preparing and managing the transition from Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial year commencing 1 January 2005. The adoption of AIFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ended 30 June 2006 on first time adoption. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. The Audit and Risk Committee is overseeing and managing the economic entity's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The Directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are detailed below. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-

setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the economic entity's Audit and Risk Committee.

**Note 4.10: Impact of adopting Australian Equivalents to AIFRS (cont'd)**

(i) Development Expenditure

Under AASB 138: Intangible Assets, costs associated with the research phase of the development of an asset must be expensed. This is consistent with the economic entity's existing accounting policy and therefore on transition, the financial impact is assessed as \$nil, as no such research costs were capitalised at 1 July 2004 or 1 July 2005.

(ii) Impairment of Assets

Under the Australian equivalent of IAS 36 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of the net selling price and its value in use. This will result in a change in the consolidated entity's accounting policy which determines the recoverable amount of an asset will be recognised sooner and that the amount of write downs will be greater. The adjustment for the consolidated entity is expected to be \$nil.

(iii) Intangible assets

Under the Australian equivalent to IAS 38 *Intangible Assets*, costs incurred in the research phase of the development of an internally generated intangible must be expensed. This is consistent with the consolidated entity's current accounting policy. As the consolidated entity has not capitalised any research costs to date, the adjustment to the consolidated entity is expected to be \$nil.

(iii) Share Based Payments

Under AASB 2 *Share Based Payments*, the economic entity will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share based payments issued after 7 November 2003 which have not vested as at 1 July 2005. For the financial year ended 30 June 2006 the fair value of options is required to be shown as an expense to the company together with comparative information for 2005. Based upon options outstanding as at 30 June 2005 the expense for each year will be:

2005: \$192,311      2006: \$251,842

(iii) Income Tax

Under the Australian equivalent to IAS 12 *Income Taxes*, the consolidated entity will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax based balance sheet. As the consolidated entity has significant tax losses at 30 June 2005, expected adjustment to the consolidated entity is \$nil.

**Note 4.11: NTA Backing**

	Consolidated	
	2005	2004
Net tangible asset backing per ordinary share	<u>22.12 cents per share</u>	<u>(\$33.12) per share</u>

**Note 4.12: Audit**

This report is based on accounts which are currently in the process of being audited.

## 5. BASIS OF PREPARATION OF PRELIMINARY FINAL REPORT

This general purpose financial report for the reporting period ended 30 June 2005 has been prepared in accordance with Accounting Standard AASB 1029 Interim Financial Reporting, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

This preliminary final report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Two Way TV Australia Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

This preliminary final report including the commentary on Group results was approved pursuant to a resolution of the board of directors on 9 September 2005.