

**ASX RELEASE**

**30 September 2008**

**2008 Annual Report**

In accordance with Listing Rule 4.7, Two Way Limited lodges its Annual Report for the financial year ended 30 June 2008 (including the directors' report, the financial report, the directors' declaration and audit report).

A Notice of Meeting for the 2008 Annual General Meeting, to be held on 13 November 2008 (including explanatory notes, letter of invitation to shareholders and proxy form), will be lodged shortly.

**For further information:**

Ben Reichel  
Chief Executive Officer and Managing Director  
Phone: +612 9017 7000 or 0412 060 281

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**ABOUT TWO WAY LIMITED (ASX: TTV)**

Two Way creates advanced interactive media and gambling applications. Our competitive strengths include our specialised expertise, patented technology, and library of interactive applications, which can be deployed on TV, mobile or internet.

Two Way has developed an interactive TV wagering service with Tabcorp Holdings Limited (ASX:TAH) and Foxtel, with the potential to establish similar relationships with other wagering and broadcasting partners throughout Australia and overseas.

Our interactive wagering technology offers advanced betting features and related information, and utilises the latest synchronisation techniques to enhance the user experience. This technology can be applied to both racing and sports betting applications.

Our Way2Bet wagering portal offers an extensive range of information resources to help punters bet better. These services are available via online and mobile devices at [www.way2bet.com.au](http://www.way2bet.com.au) and way2bet.mobi.

Our Way2Play casual games portal complements and extends our interactive TV games channels.

Two Way's products are currently being deployed by leading wagering and interactive TV operators in Australia and New Zealand. Our clients include Tabcorp, Foxtel, Austar and Sky New Zealand.

To learn more about Two Way visit [www.twowaytv.com.au](http://www.twowaytv.com.au)





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## FROM THE CHAIRMAN



Two Way Limited entered the 2008 financial year with a restructured Board and management team. These changes have delivered benefits to shareholders, with a more focussed strategy and improved operational performance.

As outlined in last year's Annual Report, the Company is now concentrating on its gambling and wagering opportunities. The Board continues to believe that this strategy is the right one for the business.

The year was marked by the successful launch in Victoria of the Company's flagship product, our TV wagering service. While it is still very early days, the Board is confident that this product will deliver a solid income stream for the Company, with significant potential for growth if the service can be expanded around Australia. In the medium to long term, we will also look to export this technology overseas.

During the year the Company also successfully expanded its Way2Bet wagering portal. Operating costs for this service have been significantly reduced, while revenue has simultaneously been increased. The site continues to perform well as we enter the new financial year.

Two Way has also maintained its games operations in Australia and New Zealand, where our games channels on interactive TV continue to deliver a steady revenue stream. The Company is now engaging in cost-effective marketing initiatives to increase subscriber numbers and provide greater value to our broadcasting partners.

Consistent with our strategic and operational direction, Two Way successfully exited its previous operations in Asia during the year.

### FINANCIAL REVIEW

In last year's report, I stated that the Company was "expecting improvements in the following areas during the 2008 financial year:

- "The restructure of the business and relocation of premises will deliver significant savings in terms of people costs and rent.
- "With the movement away from casual games and mobile services in Asia, significantly reduced licence fees will be paid to third parties.
- "The proposed launch of the pay TV wagering service will deliver a new revenue stream in the second half of the year.
- "Similarly, the Company's ongoing development of its Way2Bet website will progressively deliver stronger revenue.
- "In summary, while it is difficult to forecast the precise revenue from the new businesses, the Company will deliver a better bottom line in the 2008 financial year."

I am pleased to report that all of these objectives were successfully achieved.

However, there were extensive delays in launching our TV wagering service, caused by the need to overcome regulatory and political sensitivities. This had a negative impact on our operating earnings, which declined by 16% to \$1.1 million.

Interest earnings declined significantly, by 76% to \$0.2m, as a result of the Company's reduced cash holdings. The reduction was primarily caused by the payment to Foxtel of the upfront wagering fee of \$5.6m.

During the year your Directors took a conservative approach to the management of the Company's balance sheet, by changing its accounting policy in relation to development costs, and adopting a policy of expensing all such costs when incurred. Accordingly the Company is no longer capitalising development costs of any kind, which will significantly reduce amortisation charges from FY09 onwards.

Due to the successful cost reduction measures implemented during the year, the net loss was reduced by 37% to \$4.2 million. While this result was an improvement on all previous annual results since the public float of the Company, it is obviously still not acceptable.

The net result highlights the need for the Company to increase revenues as rapidly as possible. This increase is expected to be underpinned by the growth in usage of our TV wagering service, and its expansion beyond Victoria to other States and Territories around Australia.

The management team, supported and directed by the Board, continues to work hard to achieve the required growth and expansion of our TV wagering service, as well as increasing revenue from our Way2Bet wagering portal and casual games services.

The Board was very pleased to receive the support of shareholders during the successful capital raising in March 2008.

In closing, while it is difficult to predict how quickly our TV wagering service can be launched in additional jurisdictions, the Company is expecting a further improved bottom line result in the 2009 financial year.

A handwritten signature in black ink, appearing to read 'Stuart McGregor', written in a cursive style.

Mr Stuart McGregor  
Chairman

## FROM THE CHIEF EXECUTIVE OFFICER



The new Board and management team appointed in July 2007 has focussed on delivering the Company's TV wagering service, which is the fundamental opportunity that has attracted most of the investors in the Company. We have now successfully built and launched the service, overcoming numerous commercial, technical, regulatory and political obstacles to do so.

### TV WAGERING SERVICE

Known as Sky Racing ACTIVE, the service is available to FOXTEL and Optus TV subscribers in NSW and Victoria. The service provides detailed race and wagering information to viewers of the Sky Racing channel. In addition, Tabcorp account holders in Victoria may access their accounts and place bets.

The service has already proved to be popular with punters in Victoria. As at the end of August 2008:

- More than 4,200 Tabcorp account holders had placed a bet via the service.
- More than 470,000 bets in total had been placed through the service.
- The average number of bets per day had increased from 2,000 per day in week 1, to almost 5,000 per day in week 18.
- The average bet size was slightly more than \$9.

Two Way continues to receive highly positive feedback from our partners and users. All betting transactions via the service are safe, secure and encrypted. Further, the service includes extensive consumer safeguards: it is available only to Tabcorp account holders, who must satisfy identification requirements and be over 18; the service is password and PIN code protected; and the service includes onscreen responsible gambling messages.

The successful deployment of the service was a complex and difficult exercise. First, it required the negotiation of a complex agreement with two major corporations (Tabcorp and Foxtel), each of which has much greater bargaining power than the Company. As part of this agreement, it was necessary to bring on side the shareholders of Foxtel, each of which is also a major corporation with its own ambitions in the media and gambling sectors.

Secondly, building the service required a major technical integration project, bringing together two complex systems operated by Tabcorp and Foxtel. This technical project was completed on time and on budget.

Thirdly, actually launching the service required regulatory approval in two States (NSW and Victoria). To gain approval, it was necessary to satisfy the racing industries in two States, as well as the Government regulatory agencies in two States.

Overlaying all of this was the sensitivities of politicians in two States, which have extensively delayed the full launch in NSW. Finally, in recent times we have also had to deal with the sensitivities of Federal politicians, with the Opposition actively seeking to ban pay TV wagering – a move which would destroy your Company.

In order to expand our service into other States, and into other opportunities such as sports betting, it will be necessary to continue to deal with these issues. Shareholders can rest assured that the Board and management team are working as hard as possible to bring the benefits of our TV wagering service to punters in additional jurisdictions. In the medium to long term, we will also look to export our technology overseas.

## WAY2BET WAGERING PORTAL

During the year the Company also developed and promoted our Way2Bet wagering portal. This online and mobile site provides a range of information to "help punters bet better", including odds comparisons from leading bookmakers, free form guides, and sports and racing tips. The site now has all of the major wagering operators in Australia as clients, and is generating good sales growth and momentum.

## WAY2PLAY GAMES PORTAL AND TV GAMES SERVICES

The Company has also recently revamped its Way2Play casual games portal. This site capitalises on the Company's strengths in trivia and other casual games, and allows the Company to extend its games offering from pay TV to online.

Our TV games services also benefited from a range of new marketing initiatives undertaken during the year. This included the deployment of branded trivia games services for the Australian Football League (AFL), National Rugby League (NRL), and the MAX Music channel.

## OTHER INITIATIVES

In the 2008 financial year, we also completed the restructure of our workforce, the closure of our office in Hong Kong, the handover of our previous commercial deals in Asia, the relocation of our premises in Sydney, and the renegotiation of our licence deals with third parties. All of these initiatives have resulted in significantly reduced ongoing costs.

I would like to thank shareholders for their support over the last 12 months, and can assure you that the team at Two Way is committed to the success of the business, and delivering the resulting benefits to shareholders.



Mr Ben Reichel  
Chief Executive Officer

## INFORMATION ON DIRECTORS

### Mr Stuart James McGregor Non-Executive Chairman

Stuart McGregor was educated at Melbourne University and the London School of Business Administration, gaining degrees in Commerce and Law. He also completed a Masters of Business Administration. Over the last 30 years, Stuart has had a wide-ranging business career with active involvement across the Australasian and Asian Region. In business, he has been Company Secretary of Carlton United Breweries, Managing Director of Cascade Brewery Company Ltd in Tasmania and Managing Director of San Miguel Brewery Hong Kong Ltd, a publicly listed Hong Kong based company with subsidiary businesses in China. In the public sector, he served as Chief of Staff to a Minister for Industry and Commerce in the Federal Government and as Chief Executive of the Tasmanian Government's economic development agency. Mr McGregor was formerly a director of Primelife Limited from 1 December 2001 to 31 March 2004. Stuart is a member of Two Way Limited's Audit & Risk Management Committee and Nominations, Remunerations & Corporate Governance Committee.

### Mr Craig Francis Connelly Non-Executive Director

Craig Connelly is Managing Director of AR Capital Management Pty Limited, a Melbourne-based equity fund manager. He has worked in financial markets for the past 15 years, and prior to that spent five years at Price Waterhouse. He holds a Bachelor of Business (Accounting) and is a qualified Chartered Accountant, a Member of the Institute of Chartered Accountants and a Fellow of Finsia (Financial Services Institute of Australia).

Mr Connelly joined Goldman Sachs JB Were (formerly JB Were) as an assistant analyst in early 1993, and became a securities analyst in 1994. He was made an equity partner in 1996 at the age of 30. He left Goldman Sachs JB Were in mid-2004 to establish AR Capital Management. Craig is Chairman of Two Way Limited's Audit & Risk Management Committee.

### Mr Christopher Roberts Grant-Foster Non – Executive Director

Chris Grant-Foster is the Managing Director / CEO of Insite Management, a communications company with expertise in media buying, marketing, talent management and public relations. Chris was previously the Chief Executive Officer of Two Way Limited and oversaw the signing of the pay TV wagering deal with Tabcorp and Foxtel.

Chris has extensive experience in the telecommunications, content and media fields. He has held senior positions as Managing Director iTouch Asia Pacific, General Manager Telecommunications Samsung Australia, General Manager Technology and Operations Mobile Hutchison 3, and Siemens Ltd where he worked in London and Australia on Business Systems and Mobile. Chris is Chairman of Two Way Limited's Nominations, Remuneration & Corporate Governance Committee.

### Mr Benedict Paul Reichel Managing Director & CEO

Ben Reichel was appointed as Chief Executive Officer and Managing Director in July 2007. He previously held the role of Chief Operating Officer for approximately 18 months. In that role he was responsible for the day to day management of the business. Ben also previously held the roles of General Counsel and Company Secretary.

Ben was educated at the University of Sydney and the University of California, Berkeley. He holds a Bachelor of Arts, Bachelor of Laws with First Class Honours and Master of Laws with First Class Honours.

Ben has over sixteen years' experience in major Australian listed public companies and law firms. Before joining Two Way, Ben was General Counsel of Tab Limited, a top 75 ASX listed company. Prior to that, he was General Counsel of Sky Channel Pty Limited and held a number of executive positions at Publishing and Broadcasting Limited.

### Mr Joshua Adam Mantello Non-Executive Director (retired 20 July 2007)

Joshua Mantello is the Managing Director of Mantello Holdings Pty Ltd, a broadly based property investment and development company operating in Australia and overseas. He also holds several strategic investments in the hospitality and technology industries. Joshua sits on a number of boards, both private and public companies.

# CORPORATE GOVERNANCE STATEMENT

The Company met all of the best practice recommendations of the ASX Corporate Governance Council for the financial year ended 30 June 2008, except to the extent described below.

The Board has adopted a detailed set of Corporate Governance Policies, which encompass the following:

- Board Charter;
- Directors Code of Conduct;
- Directors Disclosure Policy and Policy for Handling Conflicts of Interest;
- Board Committee Standing Rules;
- Audit and Risk Management Committee Charter;
- Policy on Relationship with the External Auditor;
- Nominations, Remuneration and Corporate Governance Committee Charter;
- Market Disclosure Policy; and
- Securities Trading Policy and Guidelines.

Copies of these policies are available from the "Corporate Governance" section of our website, [www.twowaytv.com.au](http://www.twowaytv.com.au).

## BOARD COMPOSITION

Due to the small size of the Company and its operations, a Board of four directors is considered appropriate at this stage.

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report are set out above.

The names of independent directors of the Company are:

Mr Stuart McGregor  
Mr Craig Connelly

A non-executive director is only to be regarded as independent if:

- (a) the Board resolves that the director has no material relationship with the Company (either directly, or as a partner, shareholder, or executive officer of an organisation that has a material relationship with the Company). Specific materiality thresholds have not been set, but will be evaluated on a case by case basis;
- (b) the director is not a substantial shareholder of the Company or an officer of, or otherwise directly associated with, a substantial shareholder of the Company;
- (c) the director is not, and has not been within the previous three years:
  - i. employed by the Company;
  - ii. a principal of a material professional adviser or a material consultant to the Company; or
  - iii. employed by, or a partner in, any firm that in the past three years has been the Company's external auditor; and

- (d) no immediate family member of the director is an executive officer of the Company or, except where the immediate family member has died or become incapacitated, has been an executive officer of the Company within the previous five years.

Independent directors have the right to seek independent professional advice at the Company's expense in the furtherance of their duties as directors. The Board has an established procedure for directors to take independent professional advice at the expense of the Company. Where a director seeks reimbursement for legal and other accounting related expenses, the matter must be reviewed by the Nominations, Remuneration and Corporate Governance Committee, preferably before the expense is incurred.

The names of the members of the Nominations, Remuneration and Corporate Governance Committee and their attendance at meetings of the Committee are detailed in the Directors' Report.

## SECURITIES TRADING POLICY

The Company's policy regarding directors and employees trading in its securities has been set by the Board. The policy supplements the restrictions on insider trading under the Corporations Act. It restricts directors and employees from trading in shares of the Company, except for defined periods of 30 days after the release of the half-year and full year results, and after the Annual General Meeting. During those trading windows, directors and employees must notify the Company Secretary before trading and confirm that they do not hold any materially price sensitive non-public information. Directors must also seek clearance from the Chairman.

## AUDIT AND RISK MANAGEMENT COMMITTEE

The Company has an established Audit and Risk Management Committee to safeguard integrity in financial reporting. It consists only of independent non-executive directors. However, due to the small size of the Company and the Board, the Committee currently has only two members. Accordingly, the Company complies with Recommendation 4.3, except to the extent that it recommends that the Audit Committee consists of at least three members.

The names and qualifications of those appointed to the Audit and Risk Management Committee and their attendance at meetings of the Committee are included in the Directors' Report.

## PERFORMANCE EVALUATION

No formal annual performance evaluation of the Board was conducted during the year, due to changes to the Board composition which took place during the year. However, the Chairman closely monitors the performance of the Board at all times. The Board regularly reviews its overall performance, and the performance of its Committees and individual Directors, by way of discussion among members of the Board, in a manner that is consistent with ASX Principle 8.

## REMUNERATION POLICIES

The Board has an established Nominations, Remuneration and Corporate Governance Committee, consisting of independent non-executive directors, which is responsible for setting the overall remuneration policy and guidelines for the Company. The Committee seeks guidance from professional external remuneration consultants when required.

All executives receive a base salary and superannuation, and are eligible to receive fringe benefits and performance incentives. Executives are also entitled to participate in the Company's Option Plan. The policy is designed to attract, motivate and retain the highest calibre executives and reward them for performance which results in long-term growth in shareholder value.

The payment of bonuses, options and other incentive payments are reviewed by the Nominations, Remuneration and Corporate Governance Committee as part of the review of executive remuneration, and a recommendation is put to the Board for approval. The Board can exercise its discretion in relation to approving incentives, bonuses and options and can adopt changes to the Committee's recommendations.

The names of the members of the Nominations, Remuneration and Corporate Governance Committee, and their attendance at meetings of the Committee, are detailed in the Directors' Report.

There are no schemes for retirement benefits for non-executive directors, other than statutory superannuation.

The Remuneration Report included within the Directors' Report provides full details of the Company's remuneration policies, together with details of the amount of remuneration for all directors and the five highest-paid executives of the Company.

## CODES OF CONDUCT

The Company has a detailed code of conduct for directors, and the following detailed policies applicable to all directors and employees:

- market disclosure policy;
- securities trading policy;
- travel policy; and
- human resources policy.

However, the Company has not yet implemented a detailed code of conduct for all employees. To that extent, the Company does not yet fully comply with recommendation 10.1.

# DIRECTORS' REPORT

Your Directors present their report on the Company and its controlled entities for the financial year ended 30 June 2008.

## DIRECTORS

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

Mr Stuart James McGregor (Non-Executive Chairman)  
Mr Benedict Paul Reichel (Managing Director) – appointed 20 July 2007  
Mr Craig Francis Connelly (Non-Executive Director)  
Mr Christopher Roberts Grant-Foster (Non-Executive Director) – appointed 20 July 2007  
Mr Joshua Adam Mantello (Non-Executive Director) – retired 20 July 2007

Details of Directors' qualifications, experience and special responsibilities are provided in the *Information on Directors*, on page 6.

## COMPANY SECRETARY

Mr Rointon Nugara holds the position of Company Secretary.

Mr Nugara has been with Two Way since January 2005. He holds a Bachelor of Business (Accounting) from the University of Western Sydney and is a qualified CPA. Mr Nugara has 20 years experience in finance and accounting, having commenced his career at Arthur Young (later Ernst & Young), before moving to Sterling Winthrop Pharmaceuticals as Company Accountant. He then spent 7 years at Optus in various positions, culminating in the role of Commercial Manager in the Optus Business division. Prior to joining Two Way, Mr Nugara held the position of Planning & Analysis Manager at Foxtel.

## PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the financial year were the management and development of interactive media and gambling applications for deployment on television, mobile and internet. There were no significant changes in the nature of the economic entity's activities during the year.

## REVIEW OF OPERATIONS AND RESULTS

The economic entity reported total revenue of \$1,274,892 and a net loss of \$4,211,885 in the 2008 financial year. Operating revenue declined by 16% to \$1.08m, primarily due to the closure of non-profitable operations in Asia. Interest revenue declined by 76% to \$0.195m, due to the Company's reduced cash holdings, primarily as a result of the payment to Foxtel of the upfront wagering fee of \$5.6 million.

The Company realised a loss of \$0.791m on the sale of floating rate note investments purchased in 2005. This loss was caused by the credit market crisis from August 2007 onwards, which severely reduced the liquidity of such investments. All such investments were successfully liquidated during the year.

Operating costs were reduced by 37%. This led to an improvement of 37% in the net result.

Operational highlights for the 2008 financial year include:

- Two Way built and launched its TV wagering service on the Foxtel platform. As at the date of this report, regulatory approval has been received in Victoria, and the service commenced operations there on 28 April 2008.
- Two Way continued to improve its online and mobile betting information portal, Way2Bet.
- Two Way successfully exited from non-profitable activities in Asia.

## BUSINESS STRATEGIES AND PROSPECTS

Two Way creates advanced interactive media and gambling applications. Our competitive strengths include our specialised expertise, patented technology, and library of interactive applications, which can be deployed on TV, mobile or internet.

Two Way has developed an interactive TV wagering service with Tabcorp Holdings Limited (ASX:TAH) and Foxtel, with the potential to establish similar relationships with other wagering and broadcasting partners throughout Australia and overseas.

Our interactive wagering technology offers advanced betting features and related information, and utilises the latest synchronisation techniques to enhance the user experience. This technology can be applied to both racing and sports betting applications.

Our Way2Bet wagering portal offers an extensive range of information resources to help punters bet better. These services are available via online and mobile devices at [www.way2bet.com.au](http://www.way2bet.com.au) and [way2bet.mobi](http://way2bet.mobi).

Our Way2Play casual games portal complements and extends our interactive TV games channels.

Two Way's products are currently being deployed by leading wagering and interactive TV operators in Australia and New Zealand. Our clients include Tabcorp, Foxtel, Austar and Sky New Zealand.

Except as noted above, information on the economic entity's business strategies and prospects for future financial years has not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the economic entity.

## FINANCIAL POSITION

The net assets of the economic entity have decreased by \$3,280,114 (from \$10,135,870 at 30 June 2007 to \$6,855,756 at 30 June 2008). This represents a smaller reduction compared to the \$6,201,551 decrease reported in the previous year. The non-cash write-off of previously capitalised wagering costs as a result of a change in accounting policy (refer Note 23 to the Financial Statements); reduced investment income as a result of the sale of the Company's floating rate note investments; and the funding of normal operations were the key factors for the decrease.

The group's working capital, being current assets less current liabilities was \$1,064,483 (2007: \$7,131,865). Payment of the final upfront fee to Foxtel in December 2007; the realised loss on the sale of floating rate note investments; capital expenditure associated with relocation to new premises; and funding of operations accounted for the reduction.

## DIVIDENDS PAID OR RECOMMENDED

No dividends were paid during the financial year. The Directors do not recommend the payment of a dividend.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Company during the financial year.

## AFTER BALANCE DATE EVENTS

Other than as stated above, no matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in future financial years.

## DIRECTORS' MEETINGS

During the financial year, 13 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Board Meetings		Audit and Risk Management Committee Meetings		Nominations, Remuneration and Corporate Governance Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
S J McGregor	11	11	2	2	–	–
B P Reichel	11	11	–	–	–	–
C F Connelly	11	8	2	2	–	–
C R Grant-Foster	11	10	–	–	–	–
J A Mantello	1	1	–	–	–	–

## DIRECTORS' INTERESTS

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

	Fully Paid Ordinary Shares	Options	Total
S J McGregor	381,000	–	381,000
B P Reichel	555,000	250,000	805,000
C F Connelly	1,037,953	–	1,037,953
C R Grant-Foster	100,000	– <sup>1</sup>	100,000
J A Mantello	2,050,000	–	2,050,000

1: Subsequent to the reporting date and as at the date of this report, Mr C R Grant-Foster's remaining 250,000 options have lapsed.

# REMUNERATION REPORT

This report details the Board's policy for determining the nature and amount of remuneration of directors and executives (including secretaries and senior managers) of the Company.

The Board has an established Nominations, Remuneration and Corporate Governance Committee, consisting of independent non-executive directors, which is responsible for setting the overall remuneration policy and guidelines for the Company. The Committee seeks guidance from professional external remuneration consultants when required. Whilst the Committee did not meet during the year, the Board of Directors has taken on this responsibility as required.

The Company's non-executive directors receive director's fees at a market level designed to remunerate them for their time, commitment and responsibilities, including their participation in Board Committees. The fees in aggregate are within the \$450,000 limit for director's fees (inclusive of superannuation) approved by the Company's shareholders at the 2004 Annual General Meeting. There are no bonuses payable to non-executive directors, and there are no termination payments for non-executive directors on retirement from office, other than statutory superannuation entitlements.

Non-executive directors are not granted options. All directors hold shares in the Company.

In relation to the Company's executives, the Company's remuneration policy is to ensure that executive remuneration packages properly reflect a person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating executives of the highest calibre. As a result, remuneration packages for the Managing Director/Chief Executive Officer and senior executives include both fixed and performance-based remuneration. Base salary is determined by considering the scope of the executive's responsibility, importance to the business, competitiveness in the market, and assessed potential. Performance-based remuneration consists of grants of options under the Company's Option Plan, and the payment of cash bonuses. The total remuneration package for executives includes superannuation and other non-cash benefits to reflect the total employment cost to the Company, inclusive of any fringe benefits tax.

Employees may be offered participation in the Company's Option Plan. This plan aims to assist in retention of employees, and to provide a direct link between the individual's remuneration and the long term performance of the Company. The values of the options issued to executives during the 2008 financial year, and the terms and conditions applicable to them, are disclosed below.

Cash bonuses, as detailed in the tables of this report, can be payable if key performance indicators are met. KPIs have been based on the launch of the wagering service and exceeding budgeted targets.

All remuneration paid to Directors and executives is valued at cost to the Company and expensed. Options are valued using industry standard methodology.

The remuneration of the Managing Director/Chief Executive Officer is reviewed by the Board, acting on the advice of the Nominations, Remuneration and Corporate Governance Committee. The remuneration of senior executives is reviewed by the Chief Executive Officer and by the Board. An independent assessment during the year was undertaken in relation to staff remuneration and adjustments were made as appropriate.

The Board considers that the remuneration policies adopted have been successful in attracting, retaining and motivating talented staff who are required to manage and operate the Company as a listed public entity.

## DETAILS OF REMUNERATION FOR YEAR ENDED 30 JUNE 2008

### (A) NAMES AND POSITIONS HELD OF ECONOMIC AND PARENT ENTITY KEY MANAGEMENT PERSONNEL IN OFFICE AT ANY TIME DURING THE FINANCIAL YEAR

#### Directors

Mr S J McGregor – Chairman – Non-Executive Director  
 Mr C F Connelly – Non-Executive Director  
 Mr B P Reichel – Managing Director & Chief Executive Officer (appointed 20 July 2007)  
 Mr C R Grant-Foster – Non-Executive Director (appointed 20 July 2007)  
 Mr J A Mantello – Non-Executive Director (retired 20 July 2007)

#### Executives

Mr C R Grant-Foster – Chief Executive Officer (resigned 20 July 2007)  
 Mr R G Nugara – Company Secretary (appointed 20 July 2007) & Head of Finance & Administration  
 Mr M J Kennedy – General Manager, Product Strategy & Deployment (resigned 30 April 2008)  
 Mr G J Kean – General Manager, Products and Services  
 Mr F R Magrini – Chief Technology Officer

### (B) KEY MANAGEMENT PERSONNEL COMPENSATION

	Short Term Benefits			Post employ- ment benefits	Other long term benefits	Termination Benefits	Share Based payments		Total	Percentage of Remuneration that consists of Options
	Gross Salary Fees and Commission <sup>1</sup>	Bonus	Non-monetary benefits <sup>2</sup>	Super- annuation			Options	Shares		
<i>ij Specified Directors</i>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>2008</b>										
Mr S J McGregor ( Non-executive)	88,604	–	–	7,974	–	–	–	–	96,578	0.0%
Mr C F Connelly ( Non-executive)	40,500	–	–	3,645	–	–	–	–	44,145	0.0%
Mr B P Reichel (Managing Director)	299,323	–	–	26,939	–	–	25,500	–	351,762	7.2%
Mr C R Grant-Foster (Non-executive) <sup>3</sup>	36,000	–	–	3,240	–	–	–	–	39,240	0.0%
Mr J A Mantello ( Non-executive)	4,500	–	–	–	–	–	–	–	4,500	0.0%
<b>Total</b>	<b>468,927</b>	<b>–</b>	<b>–</b>	<b>41,798</b>	<b>–</b>	<b>–</b>	<b>25,500</b>	<b>–</b>	<b>536,225</b>	
<b>2007</b>										
Mr S J McGregor ( Non-executive)	134,000	–	–	12,060	–	–	–	–	146,060	0.0%
Mr J E McKay (Executive)	61,034	–	8,440	5,493	–	–	–	–	74,967	0.0%
Mr J D McKerlie ( Non-executive)	58,500	–	–	–	–	–	–	–	58,500	0.0%
Mr M S Carlei ( Non-executive)	77,992	–	–	–	–	–	–	–	77,992	0.0%
Mr J A Mantello ( Non-executive)	58,500	–	–	–	–	–	–	–	58,500	0.0%
Mr C F Connelly (Non-executive) <sup>4</sup>	–	–	–	–	–	–	–	–	–	0.0%
<b>Total</b>	<b>390,026</b>	<b>–</b>	<b>8,440</b>	<b>17,553</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>416,019</b>	

Note 1: Non-Executive Directors' remuneration represents fees in connection with attending Board meetings and Board Committee meetings

Note 2: Reflects provision of a fully serviced motor vehicle

Note 3: Reflects payments to Mr C R Grant-Foster in his capacity as a director, commencing 20 July 2007

Note 4: Mr C F Connelly was appointed non-executive director on 21 June 2007. Payment of remuneration commenced from 1 July 2007

(B) KEY MANAGEMENT PERSONNEL COMPENSATION (CON'T.)

	Short Term Benefits			Post employ- ment benefits	Other long term benefits	Termination Benefits	Share Based payments		Total	Percentage of Remuneration that consists of Options
	Gross Salary Fees and Commission	Bonus	Non-monetary benefits <sup>1</sup>	Super- annuation			Options	Shares		
<i>ii) Specified Executives</i>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>2008</b>										
Mr C R Grant-Foster <sup>2</sup>	12,115	–	–	2,177	–	194,390	–	–	208,682	0.0%
Mr M J Kennedy	134,615	–	–	14,521	–	54,136	–	–	203,272	0.0%
Mr R G Nugara	144,375	–	–	12,994	–	–	7,650	–	165,019	4.6%
Mr G J Kean	129,362	10,338	20,618	12,573	–	–	5,100	–	177,991	2.9%
Mr F R Magrini	154,128	15,477	–	15,264	–	–	9,180	–	194,049	4.7%
<b>Total</b>	<b>574,595</b>	<b>25,815</b>	<b>20,618</b>	<b>57,530</b>	<b>–</b>	<b>248,526</b>	<b>21,930</b>	<b>–</b>	<b>949,014</b>	
<b>2007</b>										
Mr C R Grant-Foster	315,000	–	–	34,997	–	–	–	–	349,997	0.0%
Mr B P Reichel	282,005	–	–	25,380	–	–	–	–	307,385	0.0%
Mr M J Kennedy	153,461	20,000	–	15,612	–	–	–	–	189,073	0.0%
Mr R G Nugara	140,884	–	–	12,680	–	–	–	–	153,564	0.0%
Mr G J Kean	125,967	–	21,244	11,337	–	–	–	–	158,548	0.0%
Mr F R Magrini	150,402	–	–	13,536	–	–	–	–	163,938	0.0%
<b>Total</b>	<b>1,167,719</b>	<b>20,000</b>	<b>21,244</b>	<b>113,542</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,322,505</b>	

Note 1: Reflects provision of a fully serviced motor vehicle

Note 2: Reflects payments to Mr C R Grant-Foster in his capacity as an executive, ceasing 20 July 2007

(C) OPTIONS GRANTED AS COMPENSATION

	Vested no.	Vest Date	Granted No.	Grant Date	Value per Option at Grant Date	Terms & Conditions of Each Grant		
						Exercise Price	First Exercise Date	Last Exercise Date
<b>Specified Directors</b>					\$	\$		
Mr S J McGregor	–	–	–	–	–	–	–	–
Mr C F Connelly	–	–	–	–	–	–	–	–
Mr B P Reichel	250,000	28.04.2008	250,000	01.08.2007	0.102	0.50	28.04.2008	28.04.2010
Mr C R Grant-Foster <sup>1</sup>	250,000	15.05.2007	–	–	–	–	15.05.2007	15.05.11
Mr J A Mantello	–	–	–	–	–	–	–	–
<b>Specified Executives</b>								
Mr M J Kennedy	–	–	–	–	–	–	–	–
Mr R G Nugara	75,000	28.04.2008	75,000	01.08.2007	0.102	0.50	28.04.2008	28.04.2010
Mr G J Kean	50,000	28.04.2008	50,000	01.08.2007	0.102	0.50	28.04.2008	28.04.2010
Mr F R Magrini	90,000	28.04.2008	90,000	01.08.2007	0.102	0.50	28.04.2008	28.04.2010
<b>Total</b>	<b>715,000</b>		<b>465,000</b>					

1: Mr C R Grant-Foster's remaining options lapsed on 20 July 2008.

The fair value of options granted is calculated by valuing the options as at their grant date and allocating that value equally over the period from grant date to vesting date. The value of the options as at grant date was determined using the industry standard options pricing models. This is not a market price but an estimate of the fair value as these options are not traded. This valuation takes into account the price at grant date, the exercise price, the term of the option, the vesting criteria, the impact of dilution, the non-tradeable nature of the option, the current price and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option, the volatility of the underlying stock and expected dividends.

There are no specific service and performance criteria to be met in determining remuneration option entitlements.

#### (D) OPTIONS & RIGHTS HOLDINGS

Number of Options held by Key Management Personnel

	Balance 01.07.07	Granted as Compen- sation	Options Exercised	Options Cancelled or Lapsed	Balance 30.06.08	Total Vested 30.06.08	Total Exercisable 30.06.08	Total Un- exercisable 30.06.08
<b>Specified Directors</b>								
Mr S J McGregor	687,500	–	–	(687,500)	–	–	–	–
Mr C F Connelly	–	–	–	–	–	–	–	–
Mr B P Reichel	75,000	250,000	–	(75,000)	250,000	250,000	250,000	–
Mr C R Grant-Foster	500,000	–	–	(250,000)	250,000	250,000	250,000	–
Mr J A Mantello	100,000	–	–	(100,000)	–	–	–	–
<b>Specified Executives</b>								
Mr M J Kennedy	–	100,000	–	(100,000)	–	–	–	–
Mr R G Nugara	50,000	75,000	–	(50,000)	75,000	75,000	75,000	–
Mr G J Kean	175,000	50,000	–	(175,000)	50,000	50,000	50,000	–
Mr F R Magrini	–	90,000	–	–	90,000	90,000	90,000	–
<b>Total</b>	<b>1,587,500</b>	<b>565,000</b>	<b>–</b>	<b>(1,437,500)</b>	<b>715,000</b>	<b>715,000</b>	<b>715,000</b>	<b>–</b>

Subsequent to the reporting date and as at the date of this report, Mr C R Grant-Foster's remaining 250,000 options have lapsed.

#### (E) SHAREHOLDINGS

Number of Shares held by Key Management Personnel

	Balance 01.07.07	Compensation	Options Exercised	Net Change Other	Balance 30.06.08
<b>Specified Directors</b>					
Mr S J McGregor	100,000	–	–	281,000	381,000
Mr C F Connelly	–	–	–	1,037,953	1,037,953
Mr B P Reichel	–	–	–	555,000	555,000
Mr C R Grant-Foster	–	–	–	100,000	100,000
Mr J A Mantello	8,189,121	–	–	(6,140,841)	2,048,280
<b>Specified Executives</b>					
Mr M J Kennedy	–	–	–	–	–
Mr R G Nugara	–	–	–	–	–
Mr G J Kean	–	–	–	–	–
Mr F R Magrini	–	–	–	–	–
<b>Total</b>	<b>8,289,121</b>	<b>–</b>	<b>–</b>	<b>(4,166,888)</b>	<b>4,122,233</b>

Net change other refers to shares purchased, sold and transferred as well as share entitlements exercised. Shareholdings include those held directly, indirectly or beneficially by each key management personnel, including their personally-related entities.

## EMPLOYMENT CONTRACTS OF DIRECTORS AND SENIOR EXECUTIVES

The employment conditions of the Chief Executive Officer and Managing Director, Mr Reichel, and the specified executives are formalised in contracts of employment. Mr Reichel's contract has no fixed term, but can be terminated by either party by giving six months' written notice, or (in the Company's case) paying six months' salary. The Company can terminate immediately at any time if the CEO commits a serious breach of the agreement, is guilty of serious misconduct, becomes bankrupt or is charged with a criminal offence, or significantly neglects his duties.

The specified executives are employed under contracts with no fixed term. The Company may terminate the contracts immediately if the executive is guilty of serious misconduct or wilful neglect of duties. Otherwise, the Company may terminate the contracts by giving three months' notice or paying three months' salary.

## OPTIONS

During the year ended 30 June 2008, there were no shares of the Company issued on the exercise of options granted under the Company's Option Plans. No further shares have been issued since that date as a result of the exercise of options. No amounts are unpaid on any of the shares.

No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

## INDEMNIFICATION AND INSURANCE

Pursuant to its Constitution, the Company indemnifies every current and former officer of the Company or its subsidiaries (to the extent permitted by law) against:

- (a) liabilities incurred by that person, as an officer of the Company, to another person (other than the Company or its related bodies corporate); and
- (b) liabilities for costs and expenses incurred by that person in defending any such proceedings, or in responding to actions taken by government agencies.

The Company has executed a Deed of Access and Indemnity in favour of each of its directors. The Deed grants an indemnity to directors and gives the directors the right of access to Board papers.

During the financial year the Company paid premiums for Directors' and Officers' Liability insurance in respect of Directors and executive officers of the Company and its controlled entities as permitted by the Corporations Act 2001. Details of the premium paid are confidential under the contract of insurance.

## ENVIRONMENTAL ISSUES

The economic entity's operations are not subject to any particular and significant environmental regulation under the law of the Commonwealth and States.

## PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## NON-AUDIT SERVICES

No non-audit services were provided by the auditors during the year.

## AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2008 in accordance with s307C of the Corporations Act has been received and can be found on page 19.

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

A handwritten signature in black ink, appearing to read "Stuart McGregor". The signature is written in a cursive style with a large initial 'S' and 'M'.

Mr. S. McGregor  
Director

Date 18 September 2008

# AUDITOR'S INDEPENDENCE DECLARATION



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## AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF TWO WAY LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of two Way Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b No contraventions of any applicable code of professional conduct in relation to the audit.

A stylized, handwritten signature of the representative of Grant Thornton.

GRANT THORNTON  
Chartered Accountants

A handwritten signature of K.W. Glynn.

K.W. Glynn  
Partner

Melbourne, 18 September 2008

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Our Ref: 2008 AUDITOR'S INDEPENDENCE DECLARATION.DOC

# INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenue	2	1,274,892	2,117,596	896,543	1,706,266
Cost of sales		(16,671)	–	(16,671)	–
Gross profit		1,258,221	2,117,596	879,872	1,706,266
Employee benefits expense		(2,316,437)	(3,559,053)	(2,208,395)	(3,329,660)
Depreciation and amortisation	3	(168,373)	(852,483)	(152,443)	(775,747)
Finance costs	3	(26,338)	–	(26,338)	–
Professional and consulting fees		(347,805)	(359,068)	(66,826)	(317,811)
Travel		(39,255)	(425,858)	(36,077)	(227,260)
Licence fees		(856,637)	(1,188,380)	(763,731)	(1,088,380)
Marketing & promotions		(76,783)	(24,554)	(55,514)	(24,554)
Administration expenses		(381,272)	(286,069)	(353,154)	(167,425)
Provision for non-recoverability of loan to subsidiary		–	–	(152,482)	(1,150,178)
Other expenses from ordinary activities	3	(406,599)	(608,243)	(370,548)	(408,310)
Realised loss on sale of deposits at call		(791,619)	–	(791,619)	–
Impairment of assets		–	(1,498,173)	–	(1,393,617)
Loss before tax		(4,152,897)	(6,684,285)	(4,097,255)	(7,176,676)
Income tax expense	4	(58,988)	–	–	–
<b>NET LOSS</b>		<b>(4,211,885)</b>	<b>(6,684,285)</b>	<b>(4,097,255)</b>	<b>(7,176,676)</b>
Basic loss per share (cents per share)	6	(4.45)	(7.42)		
Diluted loss per share (cents per share)	6	(4.45)	(7.42)		

The accompanying notes form part of these financial statements.

# BALANCE SHEETS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>CURRENT ASSETS</b>					
Cash	7	1,540,339	7,353,757	1,535,522	7,331,108
Trade and other receivables	8	137,218	199,275	323,958	251,079
Other	10	54,029	471,828	49,270	458,551
<b>TOTAL CURRENT ASSETS</b>		<b>1,731,586</b>	<b>8,024,860</b>	<b>1,908,750</b>	<b>8,040,739</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	8	–	–	–	–
Plant and equipment	9	235,138	224,660	235,138	208,730
Investment in subsidiary		–	–	90	–
Other	10	5,583,328	2,800,000	5,583,329	2,800,000
<b>TOTAL NON-CURRENT ASSETS</b>		<b>5,818,466</b>	<b>3,024,660</b>	<b>5,818,557</b>	<b>3,008,730</b>
<b>TOTAL ASSETS</b>		<b>7,550,052</b>	<b>11,049,520</b>	<b>7,727,307</b>	<b>11,049,469</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	12	530,596	767,324	556,027	730,069
Provisions	13	136,507	125,671	136,507	125,671
<b>TOTAL CURRENT LIABILITIES</b>		<b>667,103</b>	<b>892,995</b>	<b>692,534</b>	<b>855,740</b>
<b>NON-CURRENT LIABILITIES</b>					
Provisions	13	27,193	20,655	27,193	20,655
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>27,193</b>	<b>20,655</b>	<b>27,193</b>	<b>20,655</b>
<b>TOTAL LIABILITIES</b>		<b>694,296</b>	<b>913,650</b>	<b>719,727</b>	<b>876,395</b>
<b>NET ASSETS</b>		<b>6,855,756</b>	<b>10,135,870</b>	<b>7,007,580</b>	<b>10,173,074</b>
<b>EQUITY</b>					
Contributed equity	14	46,220,607	45,234,177	46,220,596	45,234,176
Reserves		109,510	602,762	109,510	602,762
Accumulated losses		(39,474,361)	(35,701,069)	(39,322,526)	(35,663,864)
<b>TOTAL EQUITY</b>		<b>6,855,756</b>	<b>10,135,870</b>	<b>7,007,580</b>	<b>10,173,074</b>

The accompanying notes form part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2008

	Note	Contributed Equity \$	Retained Profits \$	Share Issue Expense Reserve \$	Employee Options Reserve \$	Total \$
<b>Economic Entity</b>						
<b>Balance at 1 July 2006</b>		<b>52,908,875</b>	<b>(29,016,783)</b>	<b>(7,674,698)</b>	<b>468,890</b>	<b>16,686,284</b>
Loss attributable to members of parent entity		–	(6,684,286)	–	–	(6,684,286)
Employee share options issued		–	–	–	133,872	133,872
<b>Balance at 30 June 2007</b>		<b>52,908,875</b>	<b>(35,701,069)</b>	<b>(7,674,698)</b>	<b>602,762</b>	<b>10,135,870</b>
<b>Balance at 1 July 2007</b>		<b>52,908,875</b>	<b>(35,701,069)</b>	<b>(7,674,698)</b>	<b>602,762</b>	<b>10,135,870</b>
Shares issued during the year		1,050,075	–	–	–	1,050,075
Loss attributable to members of parent entity		–	(4,211,885)	–	–	(4,211,885)
Employee share options issued		–	–	–	108,764	108,764
Employee share options lapsed/cancelled		–	438,593	–	(602,016)	(163,423)
Share issue expense		–	–	(63,645)	–	(63,645)
<b>Balance at 30 June 2008</b>		<b>53,958,950</b>	<b>(39,474,361)</b>	<b>(7,738,343)</b>	<b>109,510</b>	<b>6,855,756</b>
<b>Parent Entity</b>						
<b>Balance at 1 July 2006</b>		<b>52,908,874</b>	<b>(28,487,188)</b>	<b>(7,674,698)</b>	<b>468,890</b>	<b>17,215,878</b>
Loss attributable to members of parent entity		–	(7,176,676)	–	–	(7,176,676)
Employee share options issued		–	–	–	133,872	133,872
<b>Balance at 30 June 2007</b>		<b>52,908,874</b>	<b>(35,663,864)</b>	<b>(7,674,698)</b>	<b>602,762</b>	<b>10,173,074</b>
<b>Balance at 1 July 2007</b>		<b>52,908,874</b>	<b>(35,663,864)</b>	<b>(7,674,698)</b>	<b>602,762</b>	<b>10,173,074</b>
Shares issued during the year		1,050,065	–	–	–	1,050,065
Loss attributable to members of parent entity		–	(4,097,255)	–	–	(4,097,255)
Employee share options issued		–	–	–	108,764	108,764
Employee share options lapsed/cancelled		–	438,593	–	(602,016)	(163,423)
Share issue expense		–	–	(63,645)	–	(63,645)
<b>Balance at 30 June 2008</b>		<b>53,958,939</b>	<b>(39,322,526)</b>	<b>(7,738,343)</b>	<b>109,510</b>	<b>7,007,580</b>

The accompanying notes form part of these financial statements.

# CASHFLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		1,047,128	1,237,819	682,070	719,470
Payments to suppliers and employees		(4,477,025)	(6,908,576)	(4,093,788)	(6,334,179)
Interest received		166,238	869,235	165,825	868,434
Finance costs		(26,338)	–	(26,260)	–
Prepaid wagering fee		(2,520,000)	(3,080,000)	(2,520,000)	(3,080,000)
<b>Net cash used in operating activities</b>	<b>18</b>	<b>(5,809,997)</b>	<b>(7,881,523)</b>	<b>(5,792,154)</b>	<b>(7,826,275)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of plant and equipment		(232,033)	(81,198)	(232,033)	(81,198)
Purchase of short term deposits		(6,000,000)	–	(6,000,000)	–
Proceeds from disposal of short term deposits		5,242,181	–	5,242,181	–
<b>Net cash used in investing activities</b>		<b>(989,852)</b>	<b>(81,198)</b>	<b>(989,852)</b>	<b>(81,198)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from share placement		1,050,075	–	1,050,065	–
Proceeds from borrowings		677,630	–	677,630	–
Repayment of borrowings		(677,630)	–	(677,630)	–
Payment of share issue expense		(63,645)	–	(63,645)	–
<b>Net cash provided by (used in) financing activities</b>		<b>986,430</b>	<b>–</b>	<b>986,420</b>	<b>–</b>
<b>Net increase (decrease) in cash and cash equivalents held</b>		<b>(5,813,419)</b>	<b>(7,962,722)</b>	<b>(5,795,586)</b>	<b>(7,907,473)</b>
<b>Cash &amp; cash equivalents at the beginning of the year</b>		<b>7,353,757</b>	<b>15,316,479</b>	<b>7,331,108</b>	<b>15,238,581</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>1,540,339</b>	<b>7,353,757</b>	<b>1,535,522</b>	<b>7,331,108</b>

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, (including Australian Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Two Way Limited and controlled entities ('Group' or 'Economic Entity'), and Two Way Limited as an individual parent entity ('Company'). Two Way Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Two Way Limited and controlled entities, and Two Way Limited as an individual parent entity, complies with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The financial statements were authorised for issue by the directors on 18 September 2008.

#### Basis for Preparation

The accounting policies set out below have been consistently applied to all years presented.

#### *Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

#### Accounting Policies

##### a. *Principles of Consolidation*

A controlled entity is any entity controlled by Two Way Limited. Control exists where Two Way Limited 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 Two Way Limited to achieve the objectives of Two Way Limited. A list of controlled entities is contained in Note 17 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

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

##### b. *Income Tax*

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

c. *Plant and Equipment*

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

**Depreciation** – the depreciable amount of all fixed assets is depreciated using the straight line method over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rate used for plant and equipment is 33%.

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

d. *Cash and Cash Equivalents*

Cash on hand and in banks and short term deposits are carried at face value of the amounts deposited or drawn.

For the purpose of the Cash Flow Statement, cash includes cash on hand and in banks, short term deposits and money market investments readily convertible to cash within two working days and not subject to significant changes in value, net of outstanding bank overdrafts.

e. *Use of Estimates and Judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Prepaid Wagering Fee – the progressive write-off of this asset is detailed in Note 10.

f. *Impairment of Non-Financial Assets*

At each reporting date, the group reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. Where such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit which the asset belongs.

g. *Comparative Figures*

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

h. *Revenue*

Revenue from the rendering of a service or delivery of goods is recognised upon the delivery of the service or goods to the customers, which is the date of transfer of risks and rewards.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of the amount of goods and services tax (GST).

i. *Financial Assets*

Financial assets are divided into the following categories:

- loans and receivables;
- financial assets at fair value through profit or loss – none of these assets held at 30 June 2008 or 30 June 2007;
- available-for-sale financial assets – none of these assets held at 30 June 2008 or 30 June 2007; and
- held-to-maturity investments – none of these assets held at 30 June 2008 or 30 June 2007.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is measured and whether any resulting income and expenses are recognised in profit or loss or directly in equity.

Generally, the Group recognises all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets are recognised in the income statement line item "finance income" or "finance costs" respectively.

**Loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group's trade and most other receivables fall into this category or financial instruments. Discounting is omitted where the effect of discounting is considered immaterial. Significant receivables are considered for impairment on a case-by-case basis when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default.

j. *Financial Liabilities*

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities depending on the purpose for which the liability was acquired. The Group's financial liabilities are trade and other payables, which are measured at amortised cost using the effective interest rate method.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items, "finance costs" or "finance income".

k. *Foreign Currency Transactions and Balances*

**Functional & presentation currency** – The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transaction and balances** – Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

Exchange differences arising on the translation of monetary items are recognised in the income statement.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the income statement.

**Group companies** – The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

l. *Employee Benefits*

Provision is made for the economic entity's liability for employee benefits from services rendered by employees to balance date. Employee benefits expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as employee benefits expense in profit and loss.

m. *Goods and Services Tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

n. *Going Concern*

Consistent with all previous reporting periods, these financial statements have been prepared on a going concern basis, despite the operating loss, negative operating cash flow and reduced cash balance for the year ended 30 June 2008. Should the budgeted revenue generation from the TV Wagering Service be delayed, the Directors will need to determine whether additional cash resources will be needed to fund working capital.

The Directors believe that the going concern basis continues to be appropriate given the following:

- the successful launch of the Company's TV wagering service in April 2008, and the continued focus to successfully expand the service throughout Australia on a best endeavours basis, and in due course to deploy the technology overseas;
- there being no further upfront fees to be paid with regard to further deployment of the TV wagering service;
- formation of a new Board in July 2007 following the shareholder-driven restructure of the Board in June 2007;
- successful restructure and downsizing of the workforce in the 2007/08 year resulting in significant staff costs savings going forward;
- closure of unprofitable activities in Asia;
- significant ongoing savings accrued from the restructure or termination of licence agreements with third parties; and
- continued reduction of overheads and focus on minimising discretionary spend.

o. *New Standards and Interpretations not yet adopted*

The following standards have been identified as those which may impact the Consolidated Entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report.

AASB8 Operating Segments

Revised AASB101 Presentation of Financial Statements (September 2007)

IFRS3 Business Combinations (March 2008) and Revised AASB3 Business Combinations

AASB2008-07 Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$

## NOTE 2: REVENUE

### Revenue from operating activities

– Service revenue	1,079,523	1,288,728	701,590	880,170
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### Revenue from non-operating activities

– Interest – other persons	195,369	828,868	194,953	826,096
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<b>Total revenue</b>	<b>1,274,892</b>	<b>2,117,596</b>	<b>896,543</b>	<b>1,706,266</b>
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## NOTE 3: LOSS FROM OPERATING ACTIVITIES

Loss from operating activities before income tax has been determined after:

### (a) Expenses

#### Depreciation and amortisation of non-current assets

– Plant and equipment	168,373	407,367	152,443	368,203
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– Amortisation of development costs	–	445,116	–	407,544
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	<b>168,373</b>	<b>852,483</b>	<b>152,443</b>	<b>775,747</b>
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### (b) Finance Costs

– Short term loan establishment fee	20,000	–	20,000	–
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– Interest on short term loan	6,338	–	6,338	–
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	<b>26,338</b>	<b>–</b>	<b>26,338</b>	<b>–</b>
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### (c) Other expenses from ordinary activities

#### Rental expenses on operating lease

– Minimum lease payments	139,648	400,146	125,150	390,702
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Net (gain)/loss on disposal of plant & equipment	(1,522)	3,990	645	3,990
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Foreign currency translation loss (gain)	16,192	1,621	119	(1,667)
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Accounting and other services	18,528	30,553	14,257	21,321
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Audit fees	43,641	45,000	42,730	43,000
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Other	190,112	126,933	187,647	(49,036)
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	<b>406,599</b>	<b>608,243</b>	<b>370,548</b>	<b>408,310</b>
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	Note	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$

#### NOTE 4: INCOME TAX EXPENSE

Prima facie income tax / (credit) calculated on the operating loss <sup>1</sup>		(1,245,869)	(2,133,449)	(1,229,177)	(2,048,344)
Add tax effect of:					
Share-based payments		(147,976)	40,162	(147,976)	40,162
Other non-deductible items		(287,578)	(273,908)	(291,682)	(273,908)
Add deferred tax asset not brought to account <sup>2</sup>		1,740,410	2,367,195	1,668,834	2,282,090
Income tax attributable to subsidiary <sup>3</sup>		58,988	–	–	–

1: The prima facie income tax rates of the economic entity vary due to differing tax rates of those group entities operating in overseas jurisdictions. The parent entity income tax rate is 30%.

2: The tax losses do not expire under current tax legislation; deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the economic entity can utilise the benefits.

3: Two Way Limited and its subsidiaries have not formed a consolidated group for income tax purposes.

#### NOTE 5: AUDITOR'S REMUNERATION

##### Parent entity

Remuneration of the auditor of the parent entity –

Grant Thornton:

– auditing or reviewing of the financial accounts	42,730	43,000	42,730	43,000
– Other services	–	–	–	–

##### Subsidiary

Remuneration of the auditor or other auditors of subsidiary for:

– auditing or reviewing of the financial report	911	2,000	–	–
– Other services	–	–	–	–
	43,641	45,000	42,730	43,000

	Note	Economic Entity	
		2008 \$	2007 \$

#### NOTE 6: LOSS PER SHARE

Net (Loss) / Earnings used in the calculation of basic EPS		(4,211,885)	(6,684,285)
Net (Loss) / Earnings used in the calculation of diluted EPS		(4,211,885)	(6,684,285)
		No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS		109,192,090	90,100,000
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS		109,192,090	90,100,000

#### Classification of Securities

The ownership-based remuneration scheme with 905,000 options remaining unconverted at year-end is not included in the calculation of basic or diluted 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 satisfied (refer to Note 24).

	Note	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$

#### NOTE 7: CASH ASSETS

Cash at bank		1,540,339	7,353,757	1,535,522	7,331,108
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#### NOTE 8: TRADE AND OTHER RECEIVABLES

##### CURRENT

Trade debtors	128,282	181,575	73,318	64,405
Other debtors				
Interest receivable	8,936	17,700	8,936	17,700
Amounts receivable from wholly-owned subsidiaries	–	–	394,186	1,319,151
Provision for non-recoverability of receivable from subsidiary	–	–	(152,482)	(1,150,177)
<b>Total current receivables</b>	<b>137,218</b>	<b>199,275</b>	<b>323,958</b>	<b>251,079</b>

##### NON-CURRENT

Other debtors				
Amounts receivable from wholly owned subsidiaries	–	–	11,012,185	11,012,185
Provision for non-recoverability of subsidiary loan	–	–	(11,012,185)	(11,012,185)
<b>Total non-current receivables</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short term nature of the balances. The average credit period on sales of services is 30 days.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements. The Group does not hold any collateral as security over any receivable balance, nor does it hold any restrictions of title. Refer to note 27 for more information on the risk management policy of the Group.

#### Impaired receivables

All of the Group's trade and other receivables have been reviewed for indicators of impairment and none were found to be impaired, except for amounts owed by Two Way TV Asia Limited to the Parent Entity. This has been fully provided for.

	Note	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$

#### NOTE 9: PLANT AND EQUIPMENT

At cost	608,620	1,274,851	608,620	1,216,140
Accumulated depreciation	(373,482)	(1,050,191)	(373,482)	(1,007,410)
	<u>235,138</u>	<u>224,660</u>	<u>235,138</u>	<u>208,730</u>
<i>Movements in carrying amounts</i>				
Balance at beginning of year	224,660	551,419	208,730	512,570
Additions	178,851	81,198	178,851	64,953
Disposals	(51,958)	(590)	(45,125)	(590)
Depreciation expense	(116,415)	(407,367)	(107,318)	(368,203)
<b>Carrying amount at the end of the year</b>	<b>235,138</b>	<b>224,660</b>	<b>235,138</b>	<b>208,730</b>

#### NOTE 10: OTHER ASSETS

##### CURRENT

Bonds and security deposits	18,421	25,247	18,421	11,970
GST receivable	5,447	304,737	688	304,737
Prepayments	30,161	141,844	30,161	141,844
	<u>54,029</u>	<u>471,828</u>	<u>49,270</u>	<u>458,551</u>

##### NON-CURRENT

Prepaid wagering fee	(a)	<u>5,583,328</u>	<u>2,800,000</u>	<u>5,583,328</u>	<u>2,800,000</u>
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##### (a) Prepaid wagering fee

Per the terms of the signed Sky Racing Active service agreement, Two Way paid Foxtel \$5.6m (plus GST) in two tranches: 50% on signing the agreement (8 June 2007); and the remainder on 31 December 2007. The progressive write-off of the asset commenced with the commercial launch of the service in May 2008, and is being recognised as a cost of sale. Two Way will retain 100% of the revenues earned under the terms of the agreement until the \$5.6m is recovered.

	Note	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$

#### NOTE 11: INTANGIBLE ASSETS

##### Capitalised games development costs

– balance at beginning of year	–	1,943,289	–	1,801,161
– amortisation expense	–	(445,116)	–	(407,544)
– impairment expense	–	(1,498,173)	–	(1,393,617)
	–	–	–	–

#### NOTE 12: TRADE AND OTHER PAYABLES

##### CURRENT

Trade creditors	180,913	326,171	180,913	326,171
Sundry creditors and accrued expenses	349,683	441,153	298,902	403,898
Amounts owed to wholly-owned subsidiary	–	–	76,212	–
	<b>530,596</b>	<b>767,324</b>	<b>556,027</b>	<b>730,069</b>

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

#### NOTE 13: PROVISIONS

##### CURRENT

<b>Employee benefits</b>	<b>136,507</b>	<b>125,671</b>	<b>136,507</b>	<b>125,671</b>
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##### NON-CURRENT

<b>Employee benefits</b>	<b>27,193</b>	<b>20,655</b>	<b>27,193</b>	<b>20,655</b>
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#### NOTE 14: CONTRIBUTED EQUITY

	Number	Number	Number	Number
At the beginning of reporting period	90,100,000	90,100,000	90,100,000	90,100,000
Shares issued during the year				
19 March 2008	11,073,654	–	11,073,654	–
30 April 2008	8,018,436	–	8,018,436	–
<b>At reporting date</b>	<b>109,192,090</b>	<b>90,100,000</b>	<b>109,192,090</b>	<b>90,100,000</b>

Ordinary shares participate in dividends and proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Changes to the then Corporations Law abolished the authorised capital and par value concept on relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$

## NOTE 15: RESERVES

- a. **Share Issue Expense Reserve** – records costs incurred in relation to issuing of the new shares in the Company.  
b. **Options Reserve** – records items recognised as expenses on valuation of employee share options.

## NOTE 16: OPERATING LEASE COMMITMENTS

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

Payable:

– not later than 1 year	81,321	97,533	81,321	97,533
– later than 1 year but not later than 5 years	81,900	153,856	81,900	153,856
– later than 5 years	–	–	–	–
	<u>163,221</u>	<u>251,389</u>	<u>163,221</u>	<u>251,389</u>

On 31 July 2007, the Company moved to its current premises after successfully negotiating a termination of its lease at its former premises. The new property lease has a three year term, with rent payable in advance. An annual increase of 3.5% is applicable on the anniversary of the initial agreement. An option exists to renew the lease for a further three year term at the expiration of the initial lease term.

Other office equipment is covered by an operating lease.

## NOTE 17: SEGMENT REPORTING

### Primary reporting – Business segments

The economic entity operates in a single business segment, being the management and development of interactive applications for television and other platforms.

### Secondary reporting – Geographical segments

	Segment Revenues		Carrying Amount of Segment Assets		Acquisition of Non-current Segment Assets	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Australia/New Zealand	1,269,839	1,841,718	7,550,052	10,997,961	178,851	66,637
Asia	5,053	275,878	–	51,559	–	14,561
	<u>1,274,892</u>	<u>2,117,596</u>	<u>7,550,052</u>	<u>11,049,520</u>	<u>178,851</u>	<u>81,198</u>

### Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables and plant and equipment, net of allowances and accumulated depreciation and amortisation.

While most assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of accounts payable and accrued expenses.

Segment assets and liabilities do not include deferred income taxes.

	Note	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$

#### NOTE 18: CASH FLOW INFORMATION

##### Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax

Loss from ordinary activities after income tax	(4,211,885)	(6,684,285)	(4,097,255)	(7,176,676)
Non-cash flows in loss from ordinary activities				
Depreciation & amortisation	168,373	852,483	152,443	775,747
Net loss on disposal of plant and equipment	(1,522)	3,990	2,167	3,990
Foreign exchange loss	16,192	1,621	119	1,621
Impairment losses	791,619	1,498,173	791,619	1,393,617
Provision for non-recoverability of loan to subsidiary	–	–	152,482	1,150,177
Share options expensed	(54,659)	133,872	(54,659)	133,871
Change in assets and liabilities				
(Increase) / decrease in receivables	62,056	32,654	(225,361)	(553,650)
(Increase) / decrease other assets	422,512	(1,064,110)	426,288	(912,532)
(Increase) / decrease in prepaid wagering fee	(2,783,329)	(2,800,000)	(2,783,329)	(2,800,000)
Increase / (decrease) in trade creditors and accruals	(236,728)	366,718	(174,042)	356,199
Increase / (decrease) in provisions	17,374	(222,639)	17,374	(198,639)
Cash Flow from Operations	<b>(5,809,997)</b>	<b>(7,881,523)</b>	<b>(5,792,154)</b>	<b>(7,826,275)</b>

#### NOTE 19: CONTROLLED ENTITIES

	Country of Incorporation	Percentage owned (%)	
		2008	2007
Parent entity:			
Two Way Limited	Australia	–	–
Subsidiaries of Two Way Limited:			
Two Way TV Operations Pty Ltd	Australia	100%	100%
Way2Bet Pty Ltd	Australia	90%	–
Two Way TV Asia Limited	Hong Kong	100%	100%
Holotype Pty Ltd	Australia	100%	100%

## NOTE 20: DISCONTINUED OPERATIONS

On 30 November 2007, the consolidated group ceased its operations in Asia. As a result, Two Way TV Asia, a 100% subsidiary of the consolidated group, closed its Hong Kong office. Financial performance of the discontinued operation to the date of cessation which is included in the preliminary consolidated income statement is as follows:

	Discontinued Operation	
	2008 \$	2007 \$
Revenue	5,053	275,878
Operating expenses	(157,535)	(665,406)
Impairment losses	–	(104,556)
Loss before income tax	(152,482)	(494,084)
Income tax expense	–	–
Loss attributable to members of the parent entity	<u>(152,482)</u>	<u>(494,084)</u>

## NOTE 21: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at the balance date the Directors were not aware of any contingent liabilities or contingent assets.

## NOTE 22: ECONOMIC DEPENDENCY

A significant portion of the development of the economic entity's applications is obtained under a licence owned by Two Way Media Ltd in the United Kingdom, a company which is not a related party.

## NOTE 23: CHANGE IN ACCOUNTING POLICIES

In the reporting periods prior to the 2008 financial year, the Company capitalised expenditure relating to the development of its interactive wagering service. These costs would then be progressively amortised over 3 years from the commercial launch of the service (28 April 2008).

For the year ending 30 June 2008, the existing policy was changed whereby development expenditure would be expensed directly and in full to the profit and loss. The Directors acknowledged that whilst the Company could currently justify the carrying value of the asset (ie the costs capitalised to date), it was considered more prudent to expense these costs as they were incurred. The impact of this change on current and prior year's results are:

Financial statement line item	Impact	2008 \$	2007 \$	Prior years \$
Staff costs	increase	187,059	265,615	293,026
Outsourced consultants costs	increase	–	83,248	–
General & admin costs (telecommunications)	increase	106,669	–	–
<b>Retained losses</b>	<b>increase</b>	<b>293,728</b>	<b>348,863</b>	<b>293,026</b>
<b>Capitalised development costs</b>	<b>decrease</b>	<b>(293,728)</b>	<b>(348,863)</b>	<b>(293,026)</b>

NOTE 24: EMPLOYEE BENEFITS

**Employee Remuneration Options**

Under the Company's 2005 share options plan, options were issued to directors and executives as part of their remuneration. These options were not issued based on performance criteria. During the 2008 financial year, all but 325,000 of these options lapsed or were voluntarily cancelled. By 31 July 2008, the remaining 325,000 options lapsed.

In August 2007 (and as announced to the ASX on 13 August 2007), the Company launched a new options plan for eligible employees. Under the plan, up to 3,000,000 new options would be granted in three series with exercise prices of \$0.50, \$0.80 and \$1.00. The first series of options with an exercise price of \$0.50 vested and became exercisable on 28 April 2008 and expire on 28 April 2010.

On 30 June 2008 the Board resolved to cancel the unvested second and third series of options.

*Details of share options outstanding as at the end of year*

Grant Date	Exercise Date	Expiry Date	Exercise Price	Economic Entity		Parent Entity	
				30.06.08 No.	30.06.07 No.	30.06.08 No.	30.06.07 No.
23.12.04	23.12.06	23.12.09	\$1.00	75,000	4,175,000	75,000	4,175,000
23.03.05	23.12.06	23.12.09	\$1.00	–	62,500	–	62,500
23.06.05	23.12.06	23.12.09	\$1.00	–	62,500	–	62,500
01.09.05	01.09.07	23.12.09	\$1.00	–	50,000	–	50,000
23.09.05	23.12.06	23.12.09	\$1.00	–	62,500	–	62,500
15.05.06	15.08.08	15.05.11	\$0.60	250,000	500,000	250,000	500,000
01.08.07	28.04.08	28.04.10	\$0.50	580,000	–	580,000	–
				<b>905,000</b>	<b>4,912,500</b>	<b>905,000</b>	<b>4,912,500</b>

NOTE 25: EVENTS SUBSEQUENT TO REPORTING DATE

Other than as stated above, no matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in future financial years.

	Note	Consolidated Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$

NOTE 26: 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.

**Key Management Personnel**

Hong Kong office rent paid to a company of which Mr S J McGregor is a director.	1,222	9,444	–	–
Hong Kong office services paid to a company of which Mr S J McGregor is a director.	2,556	5,538	–	–
Corporate communications services paid to a company of which Mr C R Grant-Foster is a director.	16,000	–	16,000	–

## NOTE 27: FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise cash, together with trade debtors and trade creditors which arise directly from its operations. This note discloses the Group's objectives, policies and processes for managing and measuring a variety of risks associated with these financial instruments.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets. Two Way Limited does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are: market rate (or interest rate) risk; credit risk; liquidity risk and foreign exchange risk.

### **Objectives, policies and processes**

Risk management is carried out by the Group's finance function under policies and objectives approved by the Board of Directors. The Head of Finance and Administration has been delegated the authority for designing and implementing processes which follow the objectives and policies. The Board receives monthly financial reports on the Group's performance including, where applicable, any issues relating to financial risk management.

Specific information regarding the mitigation of each financial risk to which the Group is exposed is provided below.

#### (a) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from cash and cash equivalents, as well as credit exposure to customers, including outstanding receivables and committed transactions. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the Balance Sheet and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

#### (b) Net Fair Values

For financial assets and liabilities the net fair value approximates their carrying value. By the date of this report, all trade debtors and trade creditors at the balance date had been settled in full.

#### (c) Market (Interest Rate) Risk

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates.

As at 30 June 2008, the economic entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial liability is as follows:

	Weighted average effective interest rate		Floating interest rate		Non-interest bearing		Total	
	2008 %	2007 %	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
<b>Financial Assets</b>								
Cash	7.40	7.68	1,540,339	7,353,757	–	–	1,540,339	7,353,757
Receivables	–	–	–	–	137,218	199,275	137,218	199,275
<b>Total financial asset</b>			<b>1,540,339</b>	<b>7,353,757</b>	<b>137,218</b>	<b>199,275</b>	<b>1,677,557</b>	<b>7,553,032</b>
<b>Financial Liabilities</b>								
Trade and sundry creditors	–	–	–	–	530,596	767,324	556,027	730,069
<b>Total financial liabilities</b>			<b>–</b>	<b>–</b>	<b>530,596</b>	<b>767,324</b>	<b>556,027</b>	<b>730,069</b>

(d) Liquidity Risk

Liquidity risk arises from the Group's management of its working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. Two Way Limited maintains cash to meet all its liquidity requirements and manages its liquidity by carefully monitoring cash outflows due in a day-to-day and week-to-week basis. Furthermore, the Group's long term liquidity needs are identified in its annual Board-approved budget, and updated on a quarterly basis through revised forecasts.

At the balance sheet date, these reports indicated that the Group is expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

(e) Foreign Currency Risk

The Group's exposure to foreign currencies is currently limited to sales of its interactive games service to a customer in New Zealand. These sales, invoiced on a monthly basis, are not denominated in the Group's measurement currency but rather, in New Zealand dollars. An assessment of the New Zealand dollar receivable at balance date was performed, including the impacts of an unfavourable exchange rate movement, and was found to be immaterial for the purposes of this disclosure.

The Group does not enter into any forward exchange contracts to buy or sell specified foreign currencies.

# DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The Financial Statements and Notes, as set out on pages 20 to 38 are in accordance with the Corporations Act 2001; and
  - a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the Company and Economic Entity;
2. The Chief Executive Officer and Head of Finance and Administration have each declared that:
  - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c) the financial statements and notes for the financial year give a true and fair view;
3. The remuneration disclosures set on pages 14 to 17 of the Directors' Report comply with accounting standards AASB124 Related Party Disclosures and the Corporations Regulations 2001; and
4. 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.

This declaration is made in accordance with a resolution of the Board of Directors on 18 September 2008.



Mr Stuart McGregor  
Chairman

# INDEPENDENT AUDIT REPORT TO THE MEMBERS



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## **INDEPENDENT AUDITOR'S REPORT To the members of TWO WAY LIMITED**

### **Report on the Financial Report**

We have audited the accompanying financial report of Two Way Limited (the company) which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration 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.

### **Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit

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engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Electronic Presentation of Audited Financial Report**

This auditor's report relates to the financial report of Two Way Limited for the year ended 30 June 2008 included on the Two Way Limited web site. The company's directors are responsible for the integrity of the Two Way Limited web site. We have not been engaged to report on the integrity of the Two Way Limited web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site

#### **Independence**

In conducting our audit, we complied with applicable independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Two Way Limited on 18 September 2008, would be in the same terms if provided to the Directors as at the date of this auditor's report.

#### **Auditor's Opinion**

In our opinion:

- a the financial report of Two Way Limited is 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 2008, and of their performance for the year ended on that date; and

- ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

#### **Material Uncertainty Regarding Continuation as a Going Concern**

Without qualification to the opinion expressed above, attention is drawn to the following matter. The matters described in Note 1(n) in the financial report indicate that further working capital may be required within the next 12 months if the generation of future revenues from the companies TV Wagering Service is delayed. As the take-up of this service is unknown at the date of this report, there exists a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

#### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 13 to 17 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

#### **Auditor's Opinion**

In our opinion the Remuneration Report of Two Way Limited for the Year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



GRANT THORNTON  
Chartered Accountants



K. W. Glynn  
Partner

Melbourne, 24 September 2008

# SHAREHOLDER INFORMATION

## TOP TWENTY SHAREHOLDERS

At 29 August 2008 the top 20 registered shareholders held 67,784,838 shares in the Company, equivalent to 62.07% of the Company's ordinary unrestricted shares.

### Top Twenty Holders of Ordinary Fully Paid Shares

Rank	Name	Number of Ordinary Shares	% Of Issued Capital
1	Irrewarra Investments Pty Ltd ST A/C GPO BOX 5264 Sydney, NSW, 2000	7,915,000	7.25
2	Jedward Nominees Pty Ltd Level 2, Suite 203 434 St Kilda Road Melbourne VIC 3000	7,000,389	6.41
3	Citicorp Nominees Pty Ltd GPO Box 764G Melbourne VIC 3000	6,718,529	6.15
4	Samuel Hewlings Chisholm 51 Douglas St St Ives NSW 2075	6,674,580	6.11
5	Glenluce Properties Pty Ltd Glenluce Prop Sfund A/C PO Box 1139 North Sydney NSW 2060	4,778,200	4.38
6	National Nominees Limited GPO Box 1406 Melbourne VIC 3000	4,009,798	3.67
7	Screecree Pty Ltd Booran Directors S/F A/C 21 Wilks Avenue Malvern VIC	3,994,561	3.66
8	ANZ Nominees Limited Cash Income A/C GPO BOX 2842AA Melbourne VIC 3000	3,755,766	3.44
9	Active Sports Marketing Pty Ltd Level 2, Suite 203 434 St Kilda Road Melbourne VIC 3000	3,166,945	2.90
10	Ebancom Pty Ltd, Ward Family A/C Attn: Robert Murray Ward PO Box 48 Collins Street West Melbourne VIC 3000	2,635,608	2.41

## Top Twenty Holders of Ordinary Fully Paid Shares (cont'd)

Rank	Name	Number of Ordinary Shares	% Of Issued Capital
11	Joshua Mantello Joshua Mantello Family A/C 5A Stewart St Richmond VIC	2,050,000	1.88
12	Jeremy Mantello Jeremy Mantello Family A/C 5A Stewart St Richmond VIC	2,047,280	1.87
13	Arinside Pty Ltd 5/412 Toorak Rd Toorak VIC	2,000,000	1.83
14	Mr John William Murray 27 Fitzwilliam Rd Vaucluse NSW	2,000,000	1.83
15	Vilo Finance Pty Ltd Level 18 Como Office Tower 644 Chapel Street South Yarra VIC 3141	2,000,000	1.83
16	Amsamac Pty Ltd Armstrong Superfund A/C Douglas St Malvern East VIC	1,818,180	1.67
17	Fortis Clearing Nominees P/L DRP A/C Level 8 50 Bridge St Sydney NSW 2000	1,596,456	1.46
18	David Gordon Level 4 Aurora Place 88 Phillip St Sydney NSW 2000	1,328,224	1.22
19	Mr Malcolm Robson Alder 20 Gladesville Road Hunters Hill NSW 2110	1,155,734	1.06
20	Fortis Clearing Nominees P/L Settlement A/C Level 8 50 Bridge St Sydney NSW 2000	1,139,588	1.04

## SUBSTANTIAL SHAREHOLDERS

At 29 August 2008 the following were substantial shareholders in the Company, as disclosed in substantial shareholder notices given to the Company:

Name of Substantial Holder	Number of Equity Securities
James Edward McKay	10,211,334
The Goldman Sachs Group, Inc	8,660,142
UBS AG, London Branch	6,718,529
Samuel Hewlings Chisholm	6,674,580

## DISTRIBUTION OF SHAREHOLDINGS / UNMARKETABLE PARCELS

### Range of Shares

Range	Total Holders	Units	% Issued Capital
1 – 1,000	17	12,800	0.01
1,001 – 5,000	100	352,753	0.32
5,001 – 10,000	92	835,007	0.76
10,001 – 100,000	234	9,685,717	8.87
100,001 – 9,999,999,999	106	98,305,813	90.03
Rounding			0.01
Total	549	109,192,090	100.00

### Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum \$500.00 parcel at \$0.15 per unit	7,463	133	466,752

## ISSUED SECURITIES

At 29 August 2008 the following securities were issued:

- 109,192,090 fully paid ordinary shares (the only quoted securities), held by 549 holders;
- 1,164,800 options (which are not quoted), held by 10 holders.

## VOTING RIGHTS OF SHAREHOLDERS

The fully paid ordinary shareholders of the Company are entitled to vote at any meeting of the members of the Company, and their voting rights are:

- On a show of hands – one vote per shareholder; and
- On a poll – one vote per fully paid ordinary share.

## ON MARKET BUY-BACK

There is no current on-market buy-back in respect of the Company's shares.

## COMPANY DETAILS

Registered Office:

Suite 2.05  
55 Miller St  
Pymont NSW 2009

Principal Place of Business:

Suite 2.05  
55 Miller St  
Pymont NSW 2009

Company Secretary:

Mr Rointon Nugara

Share Registry:

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

Auditor:

Grant Thornton (formerly William Buck)

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**way2play**<sup>TM</sup>