

Mobile Embrace Limited and Controlled Entities

ABN 24 089 805 416

Financial report for the financial year ended 30 June 2011

Corporate Governance Statement

This statement outlines the company's main corporate governance practices and its compliance with the ASX Corporate Governance Council Recommendations 2nd Edition ("ASX Recommendations"). The directors recognise the need to maintain the highest standards of behaviour, ethics and accountability. Corporate Governance best practice principles assist the board in its role to oversee the company's affairs.

Corporate governance and practices are available on the company's website www.mobileembrace.com.

Principle 1. Lay solid foundations for management and oversight

The board is empowered to manage the business of the company subject to the Corporations Act and the company's constitution. The board is responsible for the overall corporate governance of the company and the management of the company. The role and responsibilities of the board are set out in a Formal Board Charter (a copy of which can be found on the company's website). The responsibilities include:

- Oversight of the company, including internal control and accountability systems.
- Appointment and removal of the Chief Executive Officer.
- Annual review of the performance of the Chief Executive Officer and senior management.
- Ratification of appointment and, where appropriate, the removal of the Chief Financial Officer and the Company Secretary.
- Provide input and final approval of management's developed corporate strategy and performance objectives.
- Confirm processes are in place to ensure adherence to appropriate risk management, internal control, Code of Conduct and statutory compliance requirements.
- Evaluate management performance, implementation of business strategy and ensure appropriate resources are available.
- Approve and monitor major capital expenditure.
- Approve and monitor relevant reporting.
- Appoint members of the Audit Committee and the Remuneration Committee.
- Establish limits of authority for the Chief Executive Officer and senior management to conduct day-to-day management of the company's activities.

The board delegates to the Chief Executive Officer and senior managers responsible to him the authority to manage the company's day-to-day activities, and the implementation of corporate objectives. It is the role of management to manage the company in accordance with the direction determined by the board and the board's delegations to management under the company's Delegated Authority Policy. Formal delegations from the board to management and functions reserved to the board are set out in the company's Delegated Authority Policy. The Policy provides that the powers retained by the board include decisions about company strategy and policies, as well as matters involving amounts over specified limits, (which varies depending upon the nature of the transaction).

The board, or the Remuneration Committee, also has authority for succession planning and remuneration of the Chief Executive Officer and his direct reports. All matters not specifically reserved for the board and necessary for the day to day management of the company are delegated to management. For example, the Policy details procedures for the authorisation and signing of company contracts and authorisations to relevant executives in relation to expenditure. Executive management can sub-delegate where appropriate. As part of the framework set up by the Delegated Authority Policy, management is required to report regularly to the board concerning the authority exercised and matters which come, or may come within, the scope of matters reserved for the board. The reports cover a range of matters, including sub-delegations, any litigation activity, financial performance and risk management. The functions exercised by the board and those delegated to management are subject to ongoing review to ensure that the division of functions remains appropriate. The performance of senior executives of the company is evaluated both formally and informally throughout the year. The performance of the Chief Executive Officer is formally reviewed annually by the Chairman and board. Throughout the year, his performance is subject to ongoing board scrutiny. The performance of senior executives is formally reviewed annually by the Chief Executive Officer, who may in turn seek board review. Senior management competencies and performance are reviewed. Throughout the year, the performance of senior management is subject to ongoing scrutiny by the Chief Executive Officer. Both the Chief Executive Officer and senior executives are appraised against set objectives, either chosen at the beginning of the year or added during the year. These objectives are selected to enhance company performance and increase value to shareholders. The objectives will in some instances be linked to the executive's particular remuneration arrangements. Performance reviews of senior executives have taken place during the year in accordance with these evaluation processes.

Principle 2. Structure the board to add value

As at the date of this statement, the board currently comprises four (4) directors. The directors in office are:

- Mr David Haines, Non-executive independent director, Chairman;
- Mr Gavin Whyte, Non-executive independent director;
- Mr Andrew Kelton, Non-executive independent director; and
- Mr Chris Thorpe, Executive director, CEO

Details of directors, including their time in office, qualifications, experience and special responsibilities are set out in the Directors' Report. The following principles and guidelines are considered in assessing the composition of the board:

- The board determines the optimal number of board members ranging from a minimum of three to a maximum of 12 members as stipulated in the company constitution.
- The board should include directors with a broad range of industry, management and professional experience.
- Ideally the board should comprise a majority of independent directors.
- The board will appoint a Chairman who is a Non-executive director and independent, as defined by the Company's Criteria on Independence of Directors.

In determining whether a director is independent, the board conducts regular assessments and has regard to whether a director is considered to be one who:

- is a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
- is employed, or has previously been employed in an executive capacity by the company or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the board;
- has within the last three years been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- has a material contractual relationship with the company or another group member other than as a director.

The board has previously determined that a material relationship is to be determined on the basis of fees paid or moneys received or paid to either a director or a director-related entity, which may impact the EBITDA of the company in the previous financial year by more than 5%.

With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the company's expense concerning any aspect of the company's operations or undertakings in order to fulfill their duties and responsibilities as directors. Directors are encouraged to access members of the senior management team regularly, and to request relevant information as required.

The directors meet regularly with the senior executives, discussing achievements and making suggestions and recommendations. Particular emphasis is placed on the need for compliance with legislation in areas such as trade practices, environmental, occupational health and safety and the Corporations Act.

The board has established a Nomination and Remuneration Committee, the membership of which comprises Mr Haines, (independent chair), Mr Whyte (independent non-executive director) and Mr Thorpe (CEO and director). The selection and appointment of new directors is done with reference to the Nomination and Remuneration Committee Charter which is available on the company website.

The board will review the performance of individual directors annually with the assistance of the Nomination and Remuneration Committee. The basis of the evaluation will include:

- Reviewing adherence to the Formal Board Charter.
- Defining professional development requirements of individual board members.
- Setting board objectives and Key Performance Indicators for the upcoming year.

Remuneration of executives and directors is reviewed by the committee in accordance with its Charter. For further detail, please refer to the Remuneration Report.

Principle 3. Promote ethical and responsible decision making

As part of the board's commitment to the highest standard of conduct, the company adopts a Code of Conduct which clarifies to directors, management and employees the standards of ethical behaviour required in carrying out their duties and responsibilities. The Code of Conduct covers such matters as:

- Conflicts of interest;
- Fair dealing;
- Protection and proper use of company assets;
- Compliance with laws and regulations;
- Whistle blower protection;
- Relations with customers and suppliers;
- Ethical responsibilities;
- Employment practices; and
- Responsibilities to the environment and the community.

A copy of the Code of Conduct is available on the company's website. The company has adopted a share trading policy allowing directors and nominated senior staff to trade in the company's securities generally only in the six-week period following the release of the company's half yearly results and yearly results to the ASX and after the Annual General Meeting. Senior staff also require the approval of the board prior to trading in the company's securities. A copy of the share trading policy is available on the company's website.

Directors' shareholdings in the company are shown in the Directors' Report.

Diversity Policy

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The company is committed to diversity and recognises the benefits arising from employee and board diversity and the importance of benefiting from all available talent. Accordingly, the company has established a diversity policy which is available at www.mobileembrace.com.

This diversity policy outlines requirements for the Board to develop measurable objectives for achieving diversity, and annually assess both the objectives and the progress in achieving those objectives. Accordingly, the Board has developed the following objectives regarding gender diversity and aims to achieve these objectives over the next few years as director and senior executive positions become vacant and appropriately qualified candidates become available:

	2011		2012–2013	
	No.	%	No.	%
Women on the Board	0	0	0	0
Women in senior management roles	2	4	2	4
Women employees in the company	10	22	10	22

Principle 4. Safeguard integrity in financial reporting

The board maintains an Audit Committee which comprises Mr Haines, as its Chairman, and Mr Thorpe. Mr Haines is an independent non-executive director and Mr Thorpe is the Chief Executive Officer and director. Information about the qualifications of Messrs Haines and Thorpe and their attendance at Audit Committee meetings is contained within the Directors' Report. The board believes the ASX Recommendation is satisfied as regards the technical expertise of the Audit Committee members.

Whilst acknowledging the ASX Recommendation that the Audit Committee comprise a majority of independent directors and at least three members, the board is satisfied that its two member committee can sufficiently and objectively analyse the issues before them.

Mobile Embrace Corporate Governance Statement

The Audit Committee has a formal Charter, a copy of which is available on the company's website. The committee's primary objective is to assist the board in fulfilling its responsibilities concerning the accounting and reporting practices of the company and its subsidiaries, the consideration of matters relating to the financial affairs of the company and its subsidiaries and examination of any other matters referred to it by the board. The Audit Committee is also responsible for assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period, the external auditor provides an independence declaration in relation to the audit. The number of meetings attended by the Audit Committee members is disclosed in the Directors' Report.

Principle 5. Make timely and balanced disclosure

The board is committed to ensuring price sensitive information is released to the ASX in accordance with continuous disclosure requirements per ASX Listing Rule 3.1. All reports made to the ASX are published on the company's website (www.mobileembracecorporate.com). The company complies with the continuous disclosure obligations of the ASX Listing Rules and, in doing so, immediately notifies the market of any material price sensitive information. The continuous disclosure policy is available on the company's website.

The Company Secretary has been nominated as the person with primary responsibility for communication and liaison with the ASX in relation to ASX Listing Rules and continuous disclosure issues. The Company Secretary also has responsibility for ensuring internal compliance with those ASX Listing Rules and the oversight of information released to the ASX and shareholders.

Principle 6. Respect the rights of shareholders

The board is committed to providing effective lines of communication for shareholders and all other stakeholders to easily access company information. The following channels of communication have been adopted to facilitate the fair, timely and cost effective dissemination of information:

- Annual General Meetings and any other formally convened company meetings. Shareholders are encouraged to participate in general meetings and are invited to put questions to the Chairman of the board in that forum.
- Company website at (www.mobileembracecorporate.com) which enables broader access to company information by investors and stakeholders. Copies of annual and half-year financial reports as well as all other announcements made to the ASX are posted after disclosure to the market.
- Annual report, which is available to all shareholders.
- Direct communication – the company may also communicate with shareholders, on matters of significance, directly via mail, or e-mail.
- Shareholders are entitled to vote on significant matters impacting on the business, which include election and remuneration of directors and changes to the constitution.

The directors ensure that the company's external auditor attends all Annual General Meetings and is available to answer shareholders' questions about the conduct of the audit and the preparation and content of the auditor's report thereon.

The company's formal Communication Policy is available on its website.

Principle 7. Recognise and manage risk

The board has established a formal charter, which provides an appropriate framework to monitor risks and threats faced by the company. The board and the Audit Committee are responsible for adherence to the charter. The operational and financial aspects of the company's activities, including risk management, are monitored by the board and the Audit Committee. Through the Audit Committee the board considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the company.

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

Having regard to the size of the company, the board has required management to design and implement the risk management and internal control system outlined above to manage the company's material business risks and report to it on whether those risks are being managed effectively.

Management has reported to the board as to the effectiveness of the company's management of material business risks. Senior management is responsible for the implementation of appropriate controls and risk mitigation strategies as directed. The board receives monthly reporting relating to the financial position and performance of the consolidated entity.

Pursuant to section 295A of the Corporations Act, the Chief Executive Officer and the Chief Financial Officer confirm in writing to the board, who subsequently state in writing to the external auditors, that the financial records of the company have been properly maintained, the financial statements are prepared in accordance with relevant accounting standards, present a true and fair view, and that the integrity of the financial reports is founded on a sound system of risk management and internal compliance and control systems which, in all material respects, implement the policies prescribed by the board.

Principle 8. Remunerate fairly and responsibly

The total maximum remuneration of Non-executive directors as approved by shareholders, is \$150,000 per annum. The approved limit currently provides adequate flexibility for the appointment of additional directors if required.

For the year ended 30 June 2011, the remuneration of the Chairman was \$57,912 plus superannuation. Mr Gavin Whyte received \$30,000 and Mr Drew Kelton received \$30,000 plus superannuation from the company during the financial year. No non-executive director was granted options or received a bonus payment during the financial year. No non-executive director received a retirement benefit, other than the payment of superannuation on behalf of the Chairman. The board has established a Nomination and Remuneration Committee, the membership of which comprises Mr Haines, (independent chair), Mr Whyte (independent non-executive director) and Mr Thorpe (CEO and director). The functions of the committee include review and recommendation to the Board in relation to the remuneration framework for the board, executive remuneration and incentive policies and succession planning. A copy of the Committee's Charter is available on the company's website. The number of meetings attended by the committee members is disclosed in the Directors' Report.

The objective of the remuneration process is to ensure that remuneration packages properly reflect the duties and responsibilities of the employee and that the remuneration is at an appropriate but competitive market rate which enables the company to attract, retain and motivate people of the highest quality.

Further details relating to remuneration are contained within the Remuneration Report.

Directors Report

The directors of Mobile Embrace Limited present their report together with the financial statements of the Group, being the company and its controlled entities, for the year ended 30 June 2011.

The names and particulars of the directors of the company during or since the end of the financial year unless otherwise stated are:

Directors

NAME	PARTICULARS
<p>David Andrew Haines Independent chairman non-executive director</p> <p>Interest in Shares and Options</p> <p>Special Responsibilities</p> <p>Directorships held in other listed entities during the three years prior to the current year</p>	<p>A director of the company since May 2001. Mr Haines holds a Bachelor of Education degree and was Secretary to the Standing Committee of Commonwealth, State and Territory Ministers with Censorship Responsibilities (1988 to 1994), Deputy Chief Censor, Australian Film Censorship Board (1986 to 1994) and Member of the Australian Film Censorship Board (1981-1994).</p> <p>300,000 ordinary shares.</p> <p>Mr Haines is a member and chair of the audit and nomination and remuneration committees.</p> <p>Nil.</p>
<p>Christopher Thorpe CEO executive director</p> <p>Interest in Shares and Options</p> <p>Special Responsibilities</p> <p>Directorships held in other listed entities during the three years prior to the current year</p>	<p>CEO and director of the company since May 2001, Mr Thorpe provides his expertise in the global mobile and telecommunications industry, with over 18 years experience gained in the United States, Europe and Australia. The combination of this experience with a financial background provides him with a strong understanding of the industry, its issues and trends, enabling the ability to commercialise and deploy successful business strategies.</p> <p>Mr Thorpe has been at the forefront of the mobile entertainment and telecommunications industry leading with a number of key innovations. His work has been acknowledged through the receipt of numerous business awards for these milestone achievements and contributions to the telecommunications industry.</p> <p>As CEO, Mr Thorpe provides leadership, insight, expertise, understanding along with a global network of leading industry associates and contacts. His vision and drive provide the company with opportunities to capitalise on its position as Australia's leading mobile services provider.</p> <p>26,676,639 ordinary shares.</p> <p>Mr Thorpe is a member of the audit and nomination and remuneration committees.</p> <p>Nil.</p>

Mobile Embrace Directors' Report

Directors

NAME	PARTICULARS
<p>Gavin Whyte Independent non-executive director</p> <p>Interest in Shares and Options</p> <p>Special Responsibilities</p> <p>Directorships held in other listed entities during the three years prior to the current year</p>	<p>A director of the company since December 2005, Mr Whyte brings a wealth of global experience in the mobile entertainment media industry to the company.</p> <p>Mr Whyte is currently CEO and a Co-Founder of Rework London Limited. Rework is a new mobile performance marketing business based in central London. Rework finds new customers and builds loyalty for companies through its mobile site rewardrobin.com.</p> <p>Mr Whyte was previously CEP and a Co-Founder of Touch Mobile Limited. Touch Mobile was a mobile gaming start-up, specialising in skill gaming and lotteries. The company acquired the skill gaming assets of NetPlay TV Mobile Limited in late 2010 and Touch was sold to Keyser Holdings in May 2011.</p> <p>395,000 ordinary shares</p> <p>Mr Whyte is a member of the nomination and remuneration committee.</p> <p>Nil.</p>
<p>Drew Kelton Independent non-executive director</p> <p>Interest in Shares and Options</p> <p>Special Responsibilities</p> <p>Directorships held in other listed entities during the three years prior to the current year</p>	<p>Mr Kelton joined the Board of Mobile Embrace on 1 July 2010. He is currently President Enterprise Services at Bharti Airtel, India's largest mobile phone operator and one of Asia's leading integrated telecom service providers and a member of Bharti's management board.</p> <p>Prior to joining Bharti Airtel, Mr Kelton spent eight years as Managing Director of Telstra Corporation's International business unit where he was responsible for driving business growth in Telstra's offshore operations and establishing a multinational customer division to oversee Telstra's biggest global customers.</p> <p>Mr Kelton has over 30 years experience in telecommunications and IT solutions and has worked in Europe, Australia, Asia and the US. He holds a Bachelor of Science in Electrical and Electronic Engineering (Hons) from Glasgow's Paisley College of Technology. In addition, he is a Chartered Engineer and Member of the Institution of Engineering and Technology.</p> <p>Nil.</p> <p>Nil.</p> <p>Nil.</p>

Company Secretary

NAME	PARTICULARS
<p>Paul Jeronimo</p> <p>Interest in Shares and Options</p>	<p>Company Secretary and CFO of the company since 22 April 2009. Certified Practising Accountant and Chartered Secretary, Mr Jeronimo's career spans more than two decades working with ASX listed and multinational organisations with a strong background in consumer communications, telecommunications and technology industries. His experience includes working in various roles for Philips Electronics and Consumer Communications (mobile division) during the 1990's and as CFO and Company Secretary of ASX listed Mobile Innovations Limited and Engin Limited from 2003 until 2008.</p> <p>1,000,000 ordinary shares and 1,000,000 share options.</p>

Mobile Embrace Directors' Report

Principal Activities

The principal activities of the consolidated entity are the business-to-business provision of integrated mobile and digital communications products and services.

The enabling of businesses to establish and operate a business presence on mobile, and engage existing customers and find new customers via the mobile phone with highly interactive mobile solutions. Clients can benefit from mobile with fully integrated mobile messaging, website publishing, and advertising platforms and services.

Combined with mobile marketing, mobile application development and mCommerce technology and services, the proven and robust platforms support high volume, seamless mobile business enablement, and customer communication and acquisition solutions for business.

The consolidated entity also conducts activities in mobile content production and global inbound and outbound licensing and distribution, and the provision of direct-to-consumer interactive entertainment and services sales, marketing and distribution.

The activities are conducted utilising its proprietary digital asset management, digital media merchandising and mobile membership services infrastructure, exclusively licensed mobile technology platforms and other technologies.

Mobile Embrace operates three divisions: Mobile Embrace – business-to-business integrated mobile and digital communications; RingRing Studios - mobile content production and global inbound and outbound licensing and distribution; and Mobile Entertainment Retail MER – direct-to-consumer interactive entertainment and services sales, marketing and distribution.

There were no other significant changes in the nature of the consolidated group's principal activities during the financial year.

Review of Operations

Mobile Embrace Limited posted a full-year loss due to a difficult trading environment, cautious consumer sentiment, increased regulatory costs and other changes taking place in the telecommunications industry that impacted the legacy retail business. Due to these factors and the significant investment costs in the development of new business activities the Company did not make a profit.

(\$ million)	FY 2011	FY 2010	Variance
Revenue	\$8.82	\$12.07	(\$3.25)
Advertising expense	\$1.63	\$3.41	\$1.78
EBITDA	(\$0.98)	\$1.39	(\$2.37)
Depreciation and amortisation	\$1.12	\$1.20	\$0.08
Impairment of intangible assets	\$0.45	\$0.05	(\$0.40)
Impairment of Deferred Tax Asset	\$0.40	-	(\$0.40)
Net Profit After Tax	(\$2.59)	\$0.08	(\$2.67)

Due to the trading and regulatory environment impacting the legacy retail division, the Company reduced advertising spend by \$1.78million, (52% down on previous corresponding period), which resulted in a decline in revenue.

The Company reduced overheads during the fiscal year in response to the difficult trading environment, including a reduction in senior management headcount. Since the commencement of the new financial year overhead has been reduced further.

The requirements to transition the business were substantial and were achieved in an environment of increased pressure on the retail business and the significant reduction in overhead. The company invested \$2.5 million during the year into developing the company's new business units, focusing on growing its significant business-to-business (B2B) integrated mobile and digital communications positioning, namely Mobile Embrace.

Mobile Embrace Directors' Report

During the year the Company also increased its investment in majority held online racing and sports tournament site and betting agent TopBetta.

Following the Company's announcement of its acquisition of 50.1% in April 2010, TopBetta has been developed with the establishment of a Sports Betting License, the development of a commercially robust technology platform and associated intellectual property (IP), the launching of racing and sports tournaments on the platform and most recently the launch of race betting on August 25, 2011.

As this asset is not in line with the core business of Mobile Embrace, and with TopBetta live betting now in market, the Company is looking to realise the value of the development of this asset and is currently assessing options in this regard. A favourable trade sale would give the Company a good return on investment.

RingRing Studios the Company's content production and licensing division, continued to generate sales through the distribution of its mobile applications through its global network.

In other initiatives, the Company:

- Announced an exclusive technology license and commercial partnership with Mobile Interactive Group (MIG) for Australia and New Zealand. MIG is the leading independent mobile and digital communications company in the UK
- Integrated the MIG SMS billing gateway platform along with the establishment of direct connections to the major Australian telecommunications carriers
- Announced a majority holding in a local joint venture with the UK's largest premium mobile advertising company, 4th Screen Advertising

Mobile Embrace is now positioned to take full advantage of the strong brand that was developed in the business-to-business division. The change was symbolic of the Company's increased focus on integrated mobile and digital communications.

The Company's mobile web publishing platform enables the development of mobile websites that are automatically optimised for more than 12,000 mobile devices.

Utilising its platforms and assets, Mobile Embrace provides other necessary requirements including licensing, hosting, mobile advertising, mCommerce, mobile marketing, mobile messaging and mobile applications development.

For Mobile Embrace, this produces a combination of fixed and recurring revenue streams with clear pathways for business development.

Cash flow

In October 2010 the Company raised \$300,000 through a placement of 10,000,000 fully paid ordinary shares to a sophisticated investor at a 43% premium to the closing price of MobileActive's stock on the previous day.

The funds raised from the issue were used for the expansion of the business and for working capital requirements of the company. As well as this capital raising, the company prudently secured a loan facility of \$1 million for an 18-month period. Debt drawn-down as at 31 August 2011 was \$261,000.

The Company's Cash at Bank was \$108,136 at 30 June 2011, compared to \$829,511 at 30 June 2010.

As previously announced, additional funding is required to commercialise the business. On 30th June, 2011, shareholders approved the issue of new ordinary shares to raise up to \$1.5 million with the funds to be used for working capital and repayment of debt.

On 31 August, 2011, the company executed a loan agreement with Auster Capital Partners, a US based Private Equity firm, to activate a debt facility of up to \$600,000. There were 4.8 million options with a \$0.025 cent strike price issued as part of this agreement. The loan is secured by way of a fixed and floating charge against the assets of the Company.

The directors are also considering other options to satisfy the requirements for the commercialisation of the business in the best interest of the Company and shareholders. Any decisions in relation to this will be announced as soon as possible.

Financial Position

The net assets of the consolidated group have decreased by \$2,668,688 from 30 June 2010 to \$1,479,033 in 2011. This decrease is largely due to the following factors:

- Trading and regulatory environment changes impacting the legacy retail division, the Company reduced advertising spend by \$1.78 million, (52% down on previous corresponding period), which resulted in a decline in revenue;
- The requirements to transition the business were substantial and were achieved in an environment of increased pressure on the retail business and the significant reduction in overhead. The company invested \$2.5 million during the year into developing the company's new business units, focusing on growing its significant business-to-business (B2B) integrated mobile and digital communications positioning, namely Mobile Embrace; and
- During the year the Company also increased its investment in majority held online racing and sports tournament site and betting agent TopBetta.

The consolidated group's financial position was strengthened by securing a capital raising of \$300,000 and a loan facility of up to \$1,000,000 in October 2010. The Group's working capital, being current net assets less current net liabilities has decreased from \$1,172,791 in 2010 to (\$542,166) in 2011.

During the past financial year, the Group has invested in infrastructure to secure its long term success. In particular, strategic investments have been made to diversify its asset base as well as maintaining and expanding investment in key business segments.

The directors believe the Group is in a stable financial position to expand and grow its current operations. The directors believe the Group will be able to fund future operations through share issues, debt instruments, control of costs and the continued commercialisation of its business-to-business division.

Significant Changes in State of Affairs

During the financial year there were no significant changes in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

After Balance Date Events

On 31 August 2011, the company executed a loan agreement with Auster Capital Partners, a US based Private Equity firm to activate a debt facility of up to \$600,000. There were 4.8 million options with a \$0.025 cent strike price issued as part of this agreement. The loan is secured by way of a fixed and floating charge against the assets of the Company.

Other than the above, there have been no other events that occurred since the reporting date which would materially impact on the financial position of the Company and its controlled entities.

Future Developments, Prospects and Business Strategies

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

Environmental Issues

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

To the extent that any environmental regulations may have an incidental impact on the consolidated group's operations, the directors of the company and its controlled entities are not aware of any breach by the company and its controlled entities of those regulations.

Dividends

There have been no dividends paid or declared since the beginning of the financial year, and the directors do not recommend the payment of a dividend in respect of the financial year ended 30 June 2011.

Share Based Payments

No share based payments were made during or since the financial year ended 30 June 2011.

Remuneration Report

The Remuneration Report forms part of the Directors' Report and outlines the remuneration arrangements for executives and employees of Mobile Embrace Limited, including Key Management personnel in accordance with relevant accounting standards and Section 300A of the Corporations Act.

The remuneration policy of Mobile Embrace Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The Board of Mobile Embrace Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

Remuneration of directors and executives is reviewed by the Remuneration Committee in accordance with its Charter. The Remuneration Committee makes recommendations to the Board on the following:

- Executive remuneration and incentive policies;
- Ensuring policy allows the company to recruit and retain suitably qualified executives;
- Remuneration framework for directors;
- Aligning the interests of key employees to the long-term interests of shareholders; and
- Demonstrate a clear relationship between key executive performance and remuneration.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated group's revenue, profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Relationship Between Remuneration Policy and Company Performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to the majority of key management personnel to encourage the alignment of personal and shareholder interests. The company believes this policy was effective in positioning itself for future growth.

The following table shows the revenue and earnings for the last five years for the listed entity, as well as the share prices at the end of the respective financial years.

	30 June 2007	30 June 2008	30 June 2009	30 June 2010	30 June 2011
Revenue \$	9,675,243	11,956,418	13,286,758	12,073,073	8,824,413
EBITDA \$	(244,702)	1,163,044	1,447,877	1,392,424	(981,782)
Net profit / (loss) after tax	(802,887)	207,012	263,326	81,556	(2,586,748)
Share price (cents)	13.5	4.0	2.5	1.8	3.6

The company's performance over the last five years is set out in the table above. The company has positioned itself to take advantage of the growing market opportunity of business-to-business provision of integrated mobile and digital communications products and services. In the opinion of the Board, this can be attributed, in part, to the previously described remuneration policy. The Group's operations are now more diverse than in the previous financial years. Key Management Personnel headcount has reduced following the resignation of Mr Allan

Mobile Embrace Directors' Report

Robertson COO, which took effect on 1 July 2011. The COO duties and responsibilities have been absorbed by the remaining Key Management Personnel. Executive Key Management Personnel and the Chairman have also taken a 10% temporary pay reduction to assist the Group turn around its financial performance as the business-to-business division increases its revenue contribution towards profitability.

Whilst not reflected in the share price, achieving long term sustainable profitable growth provides the platform to increase shareholder wealth in the future.

Table of Employment Details of Members of Key Management Personnel

	Christopher Thorpe	Neil Wiles
Position held 30 June 2011	Chief Executive Officer	Managing Director
Contract details	3 years and 4 months from 1 March 2009. May be extended by mutual agreement.	3 years from 1 July 2009. May be extended by mutual agreement.
Notice period	6 months	6 months
Total employment cost (TEC)	\$320,000	\$320,000
Short term incentive	Entitled to a board approved discretionary bonus at any time during course of agreement.	Entitled to a board approved discretionary bonus at any time during course of agreement.
Other benefits	30 days annual leave. Corporate parking. Life insurance policy paid for by MBA.	30 days annual leave. Life insurance policy paid for by MBA.
Termination by Company	6 months notice or payment in lieu	6 months notice or payment in lieu
Restraint	12 months post termination	12 months post termination
Interest in shares as at 30 June 2011	26,676,639	24,033,000
Long term incentive / Options	nil	3 million options granted on 30 June 2009 with an exercise price of 3.75 cents which vest in equal tranches over 3 year anniversaries and expire on 30 June 2012. 2 million of the options have vested.

Table of Employment Details of Members of Key Management Personnel

	Allan Robertson (1)	Paul Jeronimo
Position held 30 June 2011	Chief Operating Officer	CFO / Company Secretary
Term of employment agreement	3 years from 5 November 2007. May be extended by mutual agreement.	Appointment continued until date the employment is terminated pursuant to the terms of the agreement.
Notice period	6 months	3 months
Total employment cost (TEC)	\$225,000	\$179,850
Short term incentive	On anniversary of commencement date entitled to a board approved discretionary bonus of any amount up to 50% of total employment cost.	On anniversary of commencement date entitled to a board approved discretionary bonus of any amount up to 30% of total employment cost.
Other benefits	20 days annual leave. Corporate parking.	20 days annual leave.
Termination by Company	6 months notice or payment in lieu	3 months notice or payment in lieu
Restraint	12 months post termination	3 months post termination
Interest in shares as at 30 June 2011	4,580,908	1,000,000
Long term incentive / Options	1.5 million options granted on 30 June 2009 with an exercise price of 3.75 cents which vest in equal tranches over 3 year anniversaries and expire on 30 June 2012. 1,000,000 of these options had vested as at 30 June 2011.	1 million options granted on 30 June 2009 with an exercise price of 3.75 cents which vest in equal tranches over 3 year anniversaries and expire on 30 June 2012. 666,666 of these options have vested.

(1) Mr Allan Robertson resigned the position, with effect from 1 July 2011. Mr Allan Robertson's 1,500,000 options were accordingly cancelled on 1 July 2011. The Company will at this stage not procure a replacement for the position left vacant.

Director and Executive Remuneration

The following table of benefits and payments detail, in respect to the financial year, the components of remuneration for each member of the key management personnel of the consolidated group and, to the extent different, the five Group executives and five company executives receiving the highest remuneration:

	Short-term Benefits			Post-employment Benefits	Equity-settle Share-based Payments		Total \$
	Salary & Fees and Leave \$	Bonuses \$	Non-Monetary \$	Super-annuation \$	Shares \$	Options \$	
2011							
Non-Executive Directors							
David Haines	57,912	-	-	4,950	-	-	62,862
Gavin Whyte	30,000	-	-	-	-	-	30,000
Drew Kelton	30,000	-	-	2,700	-	-	32,700
Executives							
Chris Thorpe(1)	329,300	-	31,452	14,461	-	-	375,213
Neil Wiles	293,578	-	13,875	26,422	-	-	333,875
Allan Robertson(2)	213,647	-	-	19,228	-	-	232,875
Paul Jeronimo	165,000	-	-	14,850	-	-	179,850
	1,119,437	-	45,327	82,611	-	-	1,247,375

(1) Mr Chris Thorpe's salary for financial year ended 30 June 2011 included \$32,671 of back pay due to renewal of contract executed during the financial year, taking into account the period from 1 March 2009.

(2) Mr Allan Robertson resigned the position, with effect from 1 July 2011. Mr Allan Robertson's 1,500,000 options were accordingly cancelled on 1 July 2011. The Company will at this stage not procure a replacement for the position left vacant.

	Short-term Benefits			Post-employment Benefits	Equity-settle Share-based Payments		Total \$
	Salary & Fees and Leave \$	Bonuses \$	Non-Monetary \$	Super-annuation \$	Shares \$	Options \$	
2010							
Non-Executive Directors							
David Haines	57,240	-	-	4,950	-	-	62,190
Gavin Whyte	30,000	-	-	-	-	-	30,000
Executives							
Chris Thorpe(1)	287,718	-	55,261	14,461	-	-	357,440
Neil Wiles(1)	298,632	-	43,634	26,877	-	-	369,143
Allan Robertson	213,647	-	-	19,228	-	-	232,875
Paul Jeronimo	160,448	-	-	14,440	-	-	174,888
	1,047,685	-	98,895	79,956	-	-	1,226,536

(1) 2010 Non Monetary Benefits have been restated to include Reportable Fringe Benefits for 2009 and 2010.

Share Options

Share options granted to executives during the financial year

No share options were issued during or since the end of the financial year to employees or company executives.

Share options granted to other parties during the financial year

No share options were issued to any party during the financial year ended 30 June 2011.

On 31 August 2011, the company executed a loan agreement with Auster Capital Partners, a US based Private Equity firm to activate a debt facility of up to \$600,000. 4,800,000 million options with a \$0.025 cent strike price were issued as part of this agreement.

Share options on issue at year end

Details of un-issued shares under option at the date of this report are:

Grant date	Date of expiry	Exercise price (cents)	Number under option
30 Jun 2009	30 Jun 2012	3.75	6,650,000
24 May 2010	25 May 2013	6.88	3,000,000
			9,650,000

Option holders do not have any rights to participate in any issues of shares or other interests in the company or any other entity.

There have been no unissued shares or interests in options of any controlled entity within the Group during or since the end of the reporting period.

For details of options issued to directors and executives as remuneration, refer to the remuneration report.

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

Meetings of Directors

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

Directors	Directors' Meetings		Audit Committee		Nominations & Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
David Haines	10	10	2	2	1	1
Chris Thorpe	10	10	2	2	1	1
Gavin Whyte	10	10	-	-	1	1
Drew Kelton	10	9	-	-	-	-

Proceedings on Behalf of Company

Two subsidiaries of the Company, Global One Mobile Entertainment Pty Ltd (Global One) and 6G Pty Ltd (6G), were involved in Federal Court proceedings commenced by the Australian Competition and Consumer Commission (ACCC) in relation to four advertisements which the ACCC alleged were misleading and deceptive. On Thursday 21 April 2011, the Federal Court delivered reasons for judgment in those proceedings and in light of the reasons, the court will order, among other matters, that Global One pay a penalty of \$150,000 and 6G pay a penalty of \$225,000.

On 15 June 2011, the Federal Court made orders in the proceedings where the Federal Court formally made the orders as to penalty. The Federal Court also ordered, amongst other things, that Global One and 6G implement a compliance plan to ensure breaches of the Australian Consumer Law do not occur in the future and made

Mobile Embrace Directors' Report

declarations in relation to the four advertisements which were the subject of the proceedings. The Federal Court also ordered that the orders in relation to the penalties and the order as to costs payable by Global One and 6G be stayed pending the outcome of any appeal proceedings, provided that Global One and 6G file an appeal.

Having considered the Court's reasons Global One and 6G have appealed the decision. As at the date of this report the matter is yet to be heard.

The company was not a party to any other proceedings during the year.

Indemnification of Officers and Auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named in this report), the company secretary and all executive officers of the company against a liability incurred as a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate of the company against a liability incurred as such an officer or auditor.

Non-Audit Services

The Board of Directors is satisfied that the general standard of independence for auditors imposed by the Corporations Act has been met. No non-audit services were performed during the financial year to 30 June 2011.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 19 of the Annual Report.

This report of directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



Chris Thorpe
Director
30 September 2011



AUDITOR'S INDEPENDENCE DECLARATION UNDER S307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF MOBILE EMBRACE LIMITED AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

MNSA Pty Ltd

Phillip Miller
Director

Sydney
Dated³⁰th September 2011

Mobile Embrace Statement of Comprehensive Income for the Year Ended 30 June 2011

	Notes	Consolidated Group	
		2011 \$	2010 \$
Revenue from services rendered	3	8,824,413	12,073,073
Cost of sales		(1,060,207)	(1,097,083)
		7,764,206	10,975,990
Interest income	3	14,776	33,489
Service providers and commissions		(81,765)	189,992
Administration expenses		(179,492)	(210,156)
Advertising and marketing expenses		(1,634,935)	(3,412,009)
Finance costs		(20,574)	(5,278)
Depreciation and amortisation expense		(1,116,799)	(1,205,587)
Impairment of intangible assets		(448,614)	(37,143)
Impairment of property, plant & equipment		(1,861)	(2,768)
Employee benefits expense		(5,367,155)	(4,551,002)
Legal expenses	4	(419,204)	(79,049)
Occupancy expenses		(320,068)	(286,217)
Operational expenses		(312,843)	(870,683)
Other expenses from ordinary activities		(445,302)	(397,931)
Profit/(loss) before income tax		(2,569,630)	141,648
Income tax expense	5	(399,058)	(82,362)
Profit/(loss) for the year		(2,968,688)	59,286
Non-controlling interest share		381,940	22,270
Profit/(loss) attributable to members of the parent entity		(2,586,748)	81,556
Basic earnings per share (cents per share)	8	(1.33)	0.04
Diluted earnings per share (cents per share)	8	(1.27)	0.04
Dividends per share (cents)		-	-

The accompanying notes form part of these financial statements.

Mobile Embrace Statement of Comprehensive Income for the Year Ended 30 June 2011

	Consolidated Group	
	2011	2010
	\$	\$
Profit/(loss) for the year	(2,968,688)	59,286
Other comprehensive income	-	-
Income tax relating to other comprehensive income	-	-
Other comprehensive income for the year net of tax	-	-
Total comprehensive income for the year	(2,968,688)	59,286
Total comprehensive income / (loss) attributable to:		
Members of the parent entity	(2,586,748)	81,556
Minority equity interest	(381,940)	(22,270)
	(2,968,688)	59,286

The accompanying notes form part of these financial statements.

Mobile Embrace Statement of Financial Position as at 30 June 2011

	Notes	Consolidated Group	
		2011	2010
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	9	108,136	829,511
Trade and other receivables	10	1,300,465	1,853,742
Other assets	11	175,987	206,448
TOTAL CURRENT ASSETS		1,584,588	2,889,701
NON-CURRENT ASSETS			
Plant and equipment	14	117,802	183,254
Deferred tax assets	17	344,333	743,392
Intangible assets	13	1,565,202	2,041,663
Other non-current assets	11	42,525	45,719
TOTAL NON-CURRENT ASSETS		2,069,862	3,014,028
TOTAL ASSETS		3,654,450	5,903,729
CURRENT LIABILITIES			
Trade and other payables	15	1,627,763	1,559,191
Borrowings	16	329,324	27,854
Short-term provisions	18	169,667	129,865
TOTAL CURRENT LIABILITIES		2,126,754	1,716,910
NON-CURRENT LIABILITIES			
Borrowings	16	48,663	39,098
TOTAL NON-CURRENT LIABILITIES		48,663	39,098
TOTAL LIABILITIES		2,175,417	1,756,008
NET ASSETS		1,479,033	4,147,721
EQUITY			
Issued capital	19	17,173,675	16,873,675
Reserves	20	526,039	526,039
Retained earnings / (Accumulated Losses)		(16,548,965)	(13,962,217)
Parent interest		1,150,749	3,437,497
Non-controlling interest		328,284	710,224
TOTAL EQUITY		1,479,033	4,147,721

The accompanying notes form part of these financial statements.

Mobile Embrace Statement of Cash Flows for the Year Ended 30 June 2011

	Notes	Consolidated Group	
		2011	2010
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		9,377,690	12,594,007
Payments to suppliers and employees		(9,702,708)	(11,914,890)
Interest received		14,776	33,489
Net cash provided by operating activities	22	(310,242)	712,606
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiaries		-	(100,358)
Purchase of property, plant and equipment		(42,070)	(132,940)
Purchase of intangible assets		(980,098)	(960,563)
Net cash used in investing activities		(1,022,168)	(1,193,861)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		311,035	66,952
Issue of capital		300,000	-
Net cash provided by / (used in) financing activities		611,035	66,952
Net decrease in cash held		(721,375)	(414,303)
Cash at beginning of financial year		829,511	1,243,814
Cash at end of financial year	9	108,136	829,511

The accompanying notes form part of these financial statements.

Mobile Embrace Statement of Changes In Equity for the Year Ended 30 June 2011

Consolidated Group

	Issued Capital \$	Accumulated Losses \$	Reserves \$	Non- Controlling Interest \$	Total Equity \$
Balance as at 1 July 2009	16,873,675	(14,043,773)	519,202	-	3,349,104
Recognition of non controlling interest				732,494	732,494
Issued Capital	-	-	-	-	-
Profit attributable to members of the parent entity	-	81,556	-	-	81,556
Movement in reserves	-	-	6,837	-	6,837
Profit / (loss) attributable to non-controlling interest	-	-	-	(22,270)	(22,270)
Balance as at 30 June 2010	16,873,675	(13,962,217)	526,039	710,224	4,147,721
Issued Capital	300,000	-	-	-	300,000
Loss attributable to members of the parent entity	-	(2,586,748)	-	-	(2,586,748)
Profit / (loss) attributable to non-controlling interest	-	-	-	(381,940)	(381,940)
Balance as at 30 June 2011	17,173,675	(16,548,965)	526,039	328,284	1,479,033

The accompanying notes form part of these financial statements.

Note 1. Summary of Significant Accounting Policies

These consolidated financial statements and notes represents those of Mobile Embrace Limited and controlled entities ('Consolidated Group' or 'Group'). The separate financial statements of the parent entity, Mobile Embrace Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial statements were authorised for issue on 30 September 2011 by the directors of the company.

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by IASB.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

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

a. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Mobile Embrace Limited at the end of the reporting period. A controlled entity is any entity over which Mobile Embrace Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 12 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The minority interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

Note 1. Summary of Significant Accounting Policies (continued)

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest; and
- (iii) the acquisition date fair value of any previously held equity interest over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

b. Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Note 1. Summary of Significant Accounting Policies (continued)

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

c. Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(f) for details of impairment).

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Note 1. Summary of Significant Accounting Policies (continued)

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	Depreciation Rate
Leasehold Improvements	20%
Furniture and fittings	20%
Computer equipment	33%
Internet website	33% - 67%
Software	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

d. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

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.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

e. Financial Instruments

i. Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Note 1. Summary of Significant Accounting Policies (continued)

ii. Classification and Subsequent Measurement

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are substantially measured at amortised cost using the effective interest rate method.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after reporting date. (All other loans and receivables are classified as non-current assets.)

f. Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

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 to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

g. Intangible assets other than goodwill

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

h. Foreign Currency Transactions and Balances

Functional and 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. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Note 1. Summary of Significant Accounting Policies (continued)

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 statement of comprehensive income.

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 the end of that reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings 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 statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

i. Provisions

Provisions are recognised when the Group has legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

j. Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. 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. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Equity-settled compensation

The Group operates an employee share ownership plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

k. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

Note 1. Summary of Significant Accounting Policies (continued)

I. Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method.

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

m. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the period in which they are incurred.

n. 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 Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

o. Comparative Figures

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

Where the Group has retrospectively applied an accounting policy or makes a retrospective restatement of items in the financial statements, or when it reclassifies items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

p. Critical Accounting Estimates and Judgment

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key Estimates – Impairment

The Group assesses impairment at the end of each reporting period by evaluating conditions specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Note 1. Summary of Significant Accounting Policies (continued)

No impairment has been recognised at the end of the reporting period. Should the projected revenue figures be outside 90% of budgeted figures incorporated in value-in-use calculations, an impairment loss would be recognised up to the maximum carrying value of \$1,565,202.

Key Judgments - Provision of Impairment of Receivables

No provision for impairment has been recognised in respect of receivables as at the year ended 30 June 2011.

q. New and Revised Accounting Standards

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

Note 1. Summary of Significant Accounting Policies (continued)

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Group is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2010–2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific “RDR” disclosures.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB’s annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity’s first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity’s exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

AASB 2010–5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

Note 1. Summary of Significant Accounting Policies (continued)

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

AASB 2010–6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

r. Going concern

The financial report has been prepared on the basis of a going concern. The basis presumes that funds will be available to finance future operations and that realisation of assets and settlement of liabilities will occur in the normal course of business.

The directors believe that the company will be able to fund future operations through share issues, debt instruments, control of costs and the continued commercialisation of its business-to-business division.

Note 1. Summary of Significant Accounting Policies (continued)

On 30 June 2011, shareholders approved a capital raising of up to \$1,500,000, as at the date of this report the capital raising has as yet not been completed.

As disclosed in the subsequent events note 25, on 31 August 2011, the company executed a loan agreement with Auster Capital Partners, a US based Private Equity firm to activate a debt facility of up to \$600,000. There were 4.8 million options with a \$0.025 cent strike price issued as part of this agreement. The loan is secured by way of a fixed and floating charge over the assets of the Company.

The group will operate as a going concern dependent on revenue growth from its business-to-business division and continued profit contribution from its retail division. The financial statements take no account of the consequences, if any of the effects of either insufficient revenue growth, or the inability of the company to obtain additional funding from a capital raising if required.

Note 2: Parent Information

	2011 \$	2010 \$
The following information has been extracted from the books and records of the parent and has been prepared in accordance with Accounting Standards.		
Statement of Financial Position		
Assets		
Current assets	258,027	1,034,963
Total current Assets	258,027	1,034,963
Non-current assets	3,329,146	2,477,802
Total non-current assets	3,329,146	2,477,802
Total Assets	3,587,173	3,512,765
Liabilities		
Current liabilities	1,372,868	409,994
Total current liabilities	1,372,868	409,994
Non-current liabilities	675,480	1,292,945
Total non-current liabilities	675,480	1,292,945
Total Liabilities	2,048,348	1,702,939
Net Assets	1,538,825	1,809,826
Equity		
Issued capital	17,173,674	16,873,675
Accumulated losses	(16,160,888)	(15,589,888)
Reserve	526,039	526,039
Total Equity	1,538,825	1,809,826
Statement of Comprehensive Income		
Total profit / (loss)	(571,000)	178,430
Total comprehensive income	(571,000)	178,430

Note 2: Parent Information (Continued)

Guarantees

Mobile Embrace Limited has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries. A Deed of Cross Guarantee does exist between Mobile Embrace Limited and its wholly owned subsidiaries.

Contingent liabilities

At 30 June 2011, Mobile Embrace Limited had a contingent liability for \$414,090 (2010: \$674,679) relating to the rental of its office space at Level 10, 100 William Street Darlinghurst NSW 2011.

As disclosed in Note 27, two subsidiaries of the Company, Global One Mobile Entertainment Pty Ltd (Global One) and 6G Pty Ltd (6G), were involved in Federal Court proceedings commenced by the Australian Competition and Consumer Commission (ACCC) in relation to four advertisements which the ACCC alleged were misleading and deceptive. On Thursday 21 April 2011, the Federal Court delivered reasons for judgment in those proceedings and in light of the reasons, the court will order, among other matters, that Global One pay a penalty of \$150,000 and 6G pay a penalty of \$225,000.

On 15 June 2011, the Federal Court made orders in the proceedings where the Federal Court formally made the orders as to penalty. The Federal Court also ordered, amongst other things, that Global One and 6G implement a compliance plan to ensure breaches of the Australian Consumer Law do not occur in the future and made declarations in relation to the four advertisements which were the subject of the proceedings. The Federal Court also ordered that the orders in relation to the penalties and the order as to costs payable by Global One and 6G be stayed pending the outcome of any appeal proceedings, provided that Global One and 6G file an appeal.

Having considered the Court's reasons Global One and 6G have appealed the decision. As at the date of this report the matter is yet to be heard.

Contractual commitments

At 30 June 2011, Mobile Embrace Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2010: nil).

Note 3: Revenue and Other Income

	Consolidated Group	
	2011	2010
	\$	\$
a) Revenue from continuing operations		
Sales revenue:		
- Revenue from services rendered	8,824,413	12,073,073
Interest received:		
- related parties	3,574	10,414
- other persons	11,202	23,075
Total revenue	8,839,189	12,106,562
b) Total revenue and other income		
- attributable to members of the parent entity	8,623,846	12,084,136
- attributable to non-controlling interests	215,343	22,426
	8,839,189	12,106,562

Note 4. Profit / (loss) for the Year

	Consolidated Group	
	2011	2010
	\$	\$
a. Expenses		
Borrowing expenses:		
Interest expense	20,574	5,278
Total interest	20,574	5,278
Legal expenses:		
Legal fees	419,204	79,049
Total legal expenses	419,204	79,049
Amortisation and impairment of intangible assets:		
Software and website development	1,009,277	1,098,500
Impairment of intangible assets	448,614	37,143
Total amortisation and impairment	1,457,891	1,135,643
Depreciation of non-current assets:		
Computer equipment	74,678	68,375
Furniture and fixtures	4,203	3,830
Leasehold improvements	28,641	34,882
Total depreciation	107,522	107,087
Rental expense:		
Rental expense on operating leases	269,872	243,877
Total rental expense	269,872	243,877
Provisions:		
Write back of prior year provision	-	(400,000)
Total provision	-	(400,000)

Note 5. Income Tax Expense

	Consolidated Group	
	2011	2010
	\$	\$
a. The components of tax expense / (credit) comprise:		
• Deferred tax	399,058	(4,142)
• (Over)/under provision from prior years	-	86,504
	399,058	82,362
b. The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense/(benefit) as follows:		
Prima facie tax on profit / (loss) from ordinary activities before income tax at 30% (2010: 30%)	(770,889)	42,494
Add:		
Tax effect of:		
• Other non-assessable items	(123)	(95)
• Other deductible items	(656,613)	(800,630)
• Other non-allowable items	684,817	754,089
• Under/(over) provision for income tax in prior year	-	86,504
Movements in Deferred Taxes	720,048	
De-recognition of deferred tax assets arising from carried forward tax losses	421,818	
Income tax attributable to entity	399,058	82,362
Applicable weighted average effective tax rates:	N/A	58%

The increase in weighted average effective consolidated tax rate for 2011 is a result of derecognition of deferred tax assets from tax losses.

Note 6. Interests of Key Management Personnel (KMP)

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2011.

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

	2011	2010
	\$	\$
Short-term employee benefits	1,164,764	1,146,580
Post-employment benefits	82,611	79,956
	1,247,375	1,226,536

Note 6. Interests of Key Management Personnel (KMP) (Continued)

KMP Options Holdings

The number of options over ordinary shares held by each KMP of the Group during the financial year is as follows:

	Balance at beginning of year	Granted as remuneration during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercisable
30 June 2011						
David Haines	-	-	-	-	-	-
Gavin Whyte	-	-	-	-	-	-
Chris Thorpe	-	-	-	-	-	-
Neil Wiles	3,000,000	-	-	3,000,000	1,000,000	2,000,000
Allan Robertson*	4,000,000	-	(2,500,000)	1,500,000	500,000	1,000,000
Paul Jeronimo	1,000,000	-	-	1,000,000	333,333	666,667
	8,000,000	-	(2,500,000)	5,500,000	1,833,333	3,666,667

* Mr Allan Robertson resigned effective 1 July 2011, accordingly the 1,500,000 options listed at 30 June 2011 were cancelled on 1 July 2011.

	Balance at beginning of year	Granted as remuneration during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercisable
30 June 2010						
David Haines	-	-	-	-	-	-
Gavin Whyte	-	-	-	-	-	-
Chris Thorpe	-	-	-	-	-	-
Neil Wiles	3,000,000	-	-	3,000,000	1,000,000	1,000,000
Allan Robertson	4,000,000	-	-	4,000,000	500,000	3,000,000
Paul Jeronimo	1,000,000	-	-	1,000,000	333,333	333,333
	8,000,000	-	-	8,000,000	1,833,333	4,333,333

KMP Shareholdings

The number of ordinary shares held in Mobile Embrace Limited by each Key Management Personnel of the Group during the financial year is as follows:

	Balance at beginning of year	Granted as remuneration during the year	Other changes during the year	Balance at end of year
30 June 2011				
David Haines	300,000	-	-	300,000
Gavin Whyte	395,000	-	-	395,000
Chris Thorpe	26,676,639	-	-	26,676,639
Neil Wiles	24,033,000	-	-	24,033,000
Allan Robertson	4,580,908	-	-	4,580,908
Paul Jeronimo	200,000	-	800,000*	1,000,000
	56,185,547	-	800,000	56,985,547

* On-market purchase on 14 September 2010 at \$0.026 per share.

	Balance at beginning of year	Granted as remuneration during the year	Other changes during the year	Balance at end of year
30 June 2010				
David Haines	300,000	-	-	300,000
Gavin Whyte	395,000	-	-	395,000
Chris Thorpe	26,676,639	-	-	26,676,639
Neil Wiles	24,033,000	-	-	24,033,000
Allan Robertson	4,580,908	-	-	4,580,908
Paul Jeronimo	200,000	-	-	200,000
	56,185,547	-	-	56,185,547

Note 6. Interests of Key Management Personnel (KMP) (Continued)

Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP, refer to Note 26: Related Party Transactions. For details of loans to KMP, refer to Note 10: Trade and Other Receivables.

Note 7. Auditors' Remuneration

	Consolidated Group	
	2011 \$	2010 \$
Remuneration of the auditor of the parent entity for:		
Auditing or reviewing the financial report	76,000	70,000
	<u>76,000</u>	<u>70,000</u>

Note 8. Earnings Per Share

	Consolidated Group	
	2011 \$	2010 \$
Earnings / (loss) used to calculate basic EPS	(2,586,748)	81,556
	No. 2011	No. 2010
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	194,273,532	186,766,683
Weighted average number of dilutive options outstanding	<u>9,321,854</u>	<u>9,524,714</u>
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	<u>203,595,386</u>	<u>196,291,397</u>

Note 9. Cash and Cash Equivalents

	Consolidated Group	
	2011 \$	2010 \$
Cash at bank and in hand	41,038	182,309
Deposits at call	<u>67,098</u>	<u>647,202</u>
	<u>108,136</u>	<u>829,511</u>

The effective interest rate on at call bank deposits was 4.65% (2010: 4.40%).

Note 10. Trade and Other Receivables

		Consolidated Group	
	Note	2011 \$	2010 \$
a. Current			
Trade receivables		282,660	399,593
Provision for impairment		-	-
		282,660	399,593
Other receivables		1,017,805	1,347,155
Amount receivable from Key Management Personnel	10b	-	106,994
		1,017,805	1,454,149
		1,300,465	1,853,742

b. Key Management Personnel Loans

	Balance at Beginning of Year \$	Balance at End of Year \$	Interest Charged \$	Interest not Charged \$	Provision for Impairment \$	Number of Individuals
2011	106,994	-	3,574	-	-	1
2010	91,054	106,994	10,414	-	-	1

The employee loan made to Chris Thorpe was repaid in full by Mr Thorpe during the financial year. The interest rate charged on the loan during the year was at the FBT benchmark interest rate.

Credit Risk — Trade and Other Receivables

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 10. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group. The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

Note 10. Trade and Other Receivables (continued)

Consolidated Group	Gross amount \$	Past due and impaired \$	Past due but not impaired (days overdue)				Within initial trade terms \$
			< 30	31-60	61-90	> 90	
			\$	\$	\$	\$	
2011							
Trade and term receivables	282,660	-	-	45,348	35,953	18,673	182,686
Other receivables	1,017,805	-	-	-	-	-	1,017,805
	<u>1,300,465</u>	<u>-</u>	<u>-</u>	<u>45,348</u>	<u>35,953</u>	<u>18,673</u>	<u>1,200,491</u>
2010							
Trade and term receivables	399,593	-	-	46,508	6,961	12,357	333,767
Other receivables	1,454,149	-	-	-	-	106,994	1,347,155
	<u>1,853,742</u>	<u>-</u>	<u>-</u>	<u>46,508</u>	<u>6,961</u>	<u>119,351</u>	<u>1,680,922</u>

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, which would otherwise be past due or impaired.

Note 11. Other Assets

	Consolidated Group	
	2011	2010
	\$	\$
a. Current		
Prepayments	<u>175,987</u>	206,448
	<u>175,987</u>	<u>206,448</u>
b. Non-Current		
Software licence	36,755	36,755
Formation costs	5,770	8,964
	<u>42,525</u>	<u>45,719</u>

Note 12. Controlled Entities

Controlled Entities Consolidated

Name of Entity	Country of Incorporation	Ownership Interest	
		2011 %	2010 %
Parent Entity:			
Mobile Embrace Limited	Australia		
Subsidiaries of Mobile Embrace Limited:			
Global One Mobile Entertainment Pty Ltd	Australia	100	100
Divolution Limited	Australia	100	100
6G Pty Ltd	Australia	100	100
MobileActive Inc	USA	100	100
7A Pty Ltd	Australia	100	100
8Z Pty Ltd (Formerly: GetUpGo Pty Ltd)	Australia	100	100
12Follow Pty Limited	Australia	50.1	50.1
Topbetta Pty Limited	Australia	50.1	50.1
Subsidiaries of Divolution Limited:			
Sound Advertising Pty Ltd	Australia	100	100
T.A.C.L. Internet Rights Pty Ltd	Australia	100	100

Note 13. Intangible Assets

	Consolidated Group	
	2011 \$	2010 \$
Software and website development	2,218,792	2,686,024
Accumulated Amortisation	(1,331,128)	(1,428,867)
Net Carrying Value	887,664	1,257,157
Goodwill on acquisitions	647,496	647,496
Accumulated Amortisation	-	-
Net Carrying Value	647,496	647,496
Premium SMS Shortcode	-	80,300
Accumulated Amortisation	-	-
Net Carrying Value	-	80,300
Content development costs	290,887	209,268
Accumulated Amortisation	(260,845)	(152,558)
Net Carrying Value	30,042	56,710
Total Intangibles	1,565,202	2,041,663

Note 13. Intangible Assets (continued)

Movements in Carrying Amounts

Movement in the carrying amount for each class of intangible assets between the beginning and the end of the current year.

Consolidated Group:	Software and website development \$	Premium SMS Shortcodes \$	Content Development Costs \$	Goodwill \$	Total \$
Year ended 30 June 2010					
Balance at the beginning of the year	1,224,577	80,300	55,563	-	1,360,440
Additions	967,040	-	152,528	-	1,119,568
Additions through acquisition of entities	49,802	-	-	647,496	697,298
Disposals	(37,143)	-	-	-	(37,143)
Amortisation/Impairment	(947,119)	-	(151,381)	-	(1,098,500)
	1,257,157	80,300	56,710	647,496	2,041,663
Year ended 30 June 2011					
Balance at the beginning of the year	1,257,157	80,300	56,710	647,496	2,041,663
Additions	896,618	-	81,619	-	978,237
Disposals	-	-	-	-	-
Amortisation /Impairment	(1,266,111)	(80,300)	(108,287)	-	(1,454,698)
	887,664	-	30,042	647,496	1,565,202

Note 14. Plant and Equipment

	Consolidated Group	
	2011 \$	2010 \$
Computer equipment		
At cost	291,374	294,891
Accumulated depreciation	(201,066)	(170,607)
	90,308	124,284
Furniture and Fittings		
At cost	28,464	28,430
Accumulated depreciation	(21,004)	(18,135)
	7,460	10,295
Leasehold Improvements		
At cost	141,991	141,991
Accumulated depreciation	(121,957)	(93,316)
	20,034	48,675
Total Plant and Equipment	117,802	183,254

Note 14. Plant and Equipment (continued)

Movements in Carrying Amounts

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

Consolidated Group:	Computer Equipment \$	Furniture and Fittings \$	Leasehold Improvements \$	Total \$
Balance at 1 July 2009	72,517	7,452	77,432	157,401
Additions	120,142	6,673	8,893	135,708
Disposals	-	-	(2,768)	(2,768)
Depreciation expense	(68,375)	(3,830)	(34,882)	(107,087)
Balance at 30 June 2010	124,284	10,295	48,675	183,254
Balance at the beginning of year	124,284	10,295	48,675	183,254
Additions	42,489	2,164	-	44,653
Disposals	(1,787)	(797)	-	(2,584)
Depreciation expense	(74,678)	(4,202)	(28,641)	(107,521)
Closing value at 30 June 2011	90,308	7,460	20,034	117,802

Note 15. Trade and Other Payables

	Consolidated Group	
	2011	2010
	\$	\$
CURRENT		
Trade Payables	577,939	513,324
Sundry payables and accrued expenses	1,049,824	1,045,867
	1,627,763	1,559,191

Note 16. Borrowings

	Consolidated Group	
	2011	2010
	\$	\$
CURRENT		
Loan	300,000	-
Hire-purchase liability	29,324	27,854
	329,324	27,854
NON-CURRENT		
Hire-purchase liability	9,774	39,098
Other	38,889	-
	48,663	39,098

Loan secured by a fixed and floating charge over the assets on the company.
Hire purchase liabilities are secured by the underlying leased assets.

Note 17. Tax

Consolidated Group:	Opening Balance	Charged to Income	Other	Closing Balance
Provisions	223,621	(72,279)	-	151,342
Accrued expenses	85,349	84,883	-	170,232
Tax losses	532,293	(114,637)	4,162	421,818
Other	(6,171)	6,171		
Balance at 30 June 2010	835,092	(95,862)	4,162	743,392

Deferred Tax Liabilities

Other	13,500	(13,500)	-	-
Balance at 30 June 2010	13,500	(13,500)	-	-

Consolidated Group:	Opening Balance	Charged to Income	Other	Closing Balance
Provisions	151,342	2,780	-	154,122
Accrued expenses	170,232	19,979	-	190,211
Tax losses	421,818	(421,818)	-	-
Other	-	-		-
Balance at 30 June 2011	743,392	(399,059)	-	344,333

Deferred Tax Liabilities

Other	-	-	-	-
Balance at 30 June 2011	-	-	-	-

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions of deductibility set out in Note1(b) occur.

Tax losses: capital losses \$17,117 (2010: \$17,117)

Tax losses: operating losses \$515,176 (2010: \$404,701)

Note 18. Provisions

	2011	2010
Long term Employee Benefits:	\$	\$
Opening balance at beginning of financial year	129,865	129,865
Additional provisions	39,802	-
Amounts used	-	-
Balance at end of financial year	169,667	129,865

Analysis of total provisions

	Consolidated Group	
	2011	2010
	\$	\$
Current	-	-
Non-current	169,667	129,865
	169,667	129,865

Note 18. Provisions (continued)

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1.

Note 19. Issued Capital

	Consolidated Group	
	2011	2010
	\$	\$
Ordinary shares		
196,766,683 (2010: 186,766,683) fully paid ordinary shares	17,173,675	16,873,675

	Consolidated Group	
	2011	2010
	No.	No.
a. Ordinary shares		
At the beginning of the reporting period	186,766,683	186,766,683
Shares issued during the year	10,000,000	-
At reporting date	196,766,683	186,766,683

On 1 October 2010 the Company undertook a placement of 10,000,000 fully paid ordinary shares to a sophisticated investor in accordance with section 708(8) of the Corporations Act 2001 (Cth) (Placement). These shares were issued in order to raise funds to assist the Company with the expansion of its business and for working capital purposes. The shares were issued at a price of \$0.03 per share, being a 43% premium to the previous closing price at that time, raising \$300,000 of new capital.

Ordinary shares participate in dividends and the 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.

b. Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital, and financial liabilities, supported by financial assets. On 30 June 2011, shareholders approved a capital raising of up to \$1,500,000, as at the date of this report the capital raising has as yet not been completed.

c. Options

For information relating to the Mobile Embrace Limited employee option plan including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 23 Share Based Payments.

For information relating to share options issued to Key Management personnel during the financial year, refer to Note 6 Key Management Personnel Compensation.

Note 20. Reserves

	Consolidated Group	
	2011	2010
	No.	No.
Employee equity settled benefits		
Opening Balance	512,383	505,546
Granted during the year	-	-
Expensed during the year	-	6,837
Closing Balance	512,383	512,383
Other equity settled benefits		
Opening balance	13,656	13,656
Granted during the year	-	-
Cancelled during the year	-	-
Closing Balance	13,656	13,656
At reporting date	526,039	526,039

Employee equity settled benefits reserve arises on the grant of share options to employees under the Mobile Embrace Limited Employee Share Option Plan. Amounts are transferred out of the reserve into issued capital when the options are exercised. Further information about share based payments to employees is in Note 23 to the financial statements.

Note 21. Operating Segments

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- The products sold and / or services provided by segment;
- the type or class of customer for the products or services;
- the distribution method; and
- any external regulatory requirements.

Note 21. Operating Segments (continued)

Types of products and services by segment

(i) Business to business - Mobile Embrace (B2B)

Mobile Embrace is a business-to-business provider of integrated mobile and digital communications products and services.

It enables businesses to establish and operate a business presence on mobile, and engage existing customers and find new customers via the mobile phone with highly interactive mobile solutions.

Mobile Embrace makes it simple for its clients to benefit from mobile with fully integrated mobile messaging, website publishing, and advertising platforms and services.

Combined with mobile marketing, mobile application development and m-commerce technology and services, these proven and robust platforms support high volume, seamless mobile business enablement, and customer communication and acquisition solutions for business.

(ii) Direct to consumer -Mobile Entertainment Retail (MER)

MER provides direct to consumer interactive entertainment and services sales, marketing and distribution.

It builds brands, customer value and loyalty through mobile entertainment for its retail customers utilising its proprietary Digital Asset Management, Digital Media Merchandising and Mobile Membership Services infrastructure.

Consumers are offered a large and diverse range of mobile phone entertainment and services including games, video, music, graphics, information, applications, and loyalty and rewards.

Basis of accounting for purposes of reporting by operation segments

a. Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statement of the Group.

b. Intersegment transactions

An internally determined transfer price is set for all intersegment sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is the representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Intersegment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If intersegment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

c. Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives majority economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Note 21. Operating Segments (continued)

d. Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

e. Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- impairment of assets and other non-recurring items of revenue or expense;
- income tax expense;
- deferred tax assets and liabilities;
- current tax liabilities;
- other financial liabilities; and
- intangible assets;

f. Comparative information

This is the first reporting period in which AASB 8 has been adopted. Comparative information has been restated to conform to the requirements of this Standard.

(iii) Segment Performance

30 June 2011

	MER	B to B	Total
REVENUE			
External sales	8,208,253	616,158	8,824,411
Inter-segment sales	-	-	-
Interest revenue	14,776	-	14,776
Total segment revenue	8,223,029	616,158	8,839,187
Inter-segment elimination	-	-	-
Total group revenue			8,839,187
Segment net (loss) before tax	(1,338,033)	(1,231,597)	(2,569,630)

30 June 2010

	MER	B2B	Total
REVENUE			
External sales	11,321,477	751,596	12,073,073
Inter-segment sales	-	-	-
Interest revenue	33,489	-	33,489
Total segment revenue	11,354,966	751,596	12,106,562
Inter-segment elimination	-	-	-
Total group revenue			12,106,562
Segment net profit (loss) before tax	221,266	(79,618)	141,648

Note 21. Operating Segments (continued)

(iv) Segment assets

30 June 2011

	MER	B2B	Total
Segment assets	3,089,238	220,879	3,310,117
Unallocated assets:			
- Deferred tax assets			344,333
Total group assets			3,654,450

30 June 2010

	MER	B2B	Total
Segment assets	4,922,681	237,656	5,160,337
Unallocated assets:			
- Deferred tax assets			743,392
Total group assets			5,903,729

(v) Segment liabilities

30 June 2011

	MER	B2B	Total
Segment liabilities	1,972,421	202,996	2,175,417
Total group liabilities	1,972,421	202,996	2,175,417

30 June 2010

	MER	B2B	Total
Segment liabilities	1,730,238	25,770	1,756,008
Total group liabilities	1,730,238	25,770	1,756,008

(vi) Revenue by geographical region

Revenue attributable to external customers is disclosed below, based on the location of the external customer

	30 June 2011	30 June 2010
Australia	8,617,311	11,691,293
European Union	138,778	299,918
America	68,322	81,862
Total revenue	8,824,411	12,073,073

Note 21. Operating Segments (continued)

(vii) Assets by geographical region

The location of segment assets by geographical location of the assets is disclosed below:

	30 June 2011	30 June 2010
Australia	3,611,879	5,803,156
European Union	38,922	75,663
America	3,649	24,910
Total segment assets	3,654,450	5,903,729

(viii) Major customers

Premium SMS service provider, Sybase Australia Pty Ltd, accounted for 93% of external revenue.

Note 22. Cash Flow Information

a) Reconciliation of Cash Flow (used in)/ from Operations with Profit / (Loss) after Income Tax

	Consolidated Group	
	2011	2010
	\$	\$
Profit/(Loss) from ordinary activities after income tax	(2,968,688)	59,286
<i>Non-cash flows in profit/(loss) from ordinary activities:</i>		
Depreciation	107,522	107,087
Amortisation / Impairment loss of intangibles	1,459,752	1,098,500
Deferred tax asset recognised on tax losses	399,059	82,362
<i>Changes in assets and liabilities</i>		
Decrease/(increase) in receivables	553,277	502,362
Decrease/(increase) in other current assets	30,461	18,572
Increase/(decrease) in trade creditors	68,572	(783,135))
Increase/(decrease) in income tax payable	-	-
Increase/(decrease) in provisions	39,803	(372,428)
Cash flow (used in)/from operations	(310,242)	712,606

Note 22. Cash Flow Information (continued)

b) Acquisition of Entities

On 1 May 2010 the parent entity acquired 50.1% of 12Follow Pty Limited and 50.1% of Topbetta Pty Limited. Shares were issued by the acquirees for \$121,861. Additional consideration is in the form of quantified maximum commitments to fund operations to commercialise the businesses.

	Consolidated Group	
	2011	2010
	\$	\$
Purchase consideration		
Consisting of:		
- Cash consideration	-	121,861
- Contingent consideration	-	1,261,065
	-	<u>1,382,926</u>
Assets and liabilities held at acquisition date		
- Receivables	-	22,345
- Intangible assets	-	86,557
- Other assets	-	4,631
- Payables	-	(50,039)
	-	63,494
Goodwill on consolidation	-	647,496
Non-controlling equity interests in acquisitions	-	732,494

In accounting for the acquisition of the ownership interest in 12Follow Pty Ltd and Topbetta Pty Ltd, a contingent consideration of \$1,261,065 has been recognised. There has been no current year impact on the statement of comprehensive income. However, as the probability of payment changes, some impact may be noted in future reporting periods.

Also, in accounting for the acquisition of ownership interest in 12Follow Pty Ltd and Topbetta Pty Ltd, the Group has elected to apply the full goodwill method. This has resulted in the recognition of \$647,496 of goodwill.

Note 23. Share Based Payments

No share based payments were made during the financial year ending 30 June 2011.

	Number	Weighted Average Exercise Price
Options outstanding as at 30 June 2009	12,250,000	\$0.0842
Granted	3,000,000	\$0.0688
Forfeited	(300,000)	\$0.0375
Exercised	-	-
Expired	(2,100,000)	\$0.2023
Options outstanding as at 30 June 2010	12,850,000	\$0.0619
Granted	-	-
Forfeited	(200,000)	\$0.0375
Exercised	-	-
Expired	(3,000,000)	\$0.1128
Options outstanding as at 30 June 2011	9,650,000	\$0.0466
Options exercisable as at 30 June 2011:	5,433,333	
Options exercisable as at 30 June 2010:	4,783,333	

No options were granted during the financial year ended 30 June 2011.

The amount relating to options granted expensed to the Statement of Comprehensive Income for the 2010-11 financial year was \$Nil (2010: \$6,837).

Note 24. Dividends

	Consolidated Group	
	2011	2010
	\$	\$
No dividends were provided for or paid	-	-
Dividends franking account		
Balance of franking account at year end arising from payment of provision for income tax	1,257,297	1,257,297

The above available amounts are based on the balance of the dividend franking account at year-end, adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

Note 25. After Balance Date Events

On 31 August 2011, the company executed a loan agreement with Auster Capital Partners, a US based Private Equity firm to activate a debt facility of up to \$600,000. There were 4.8 million options with a \$0.025 cent strike price were issued as part of this agreement. The loan is secured by way of a fixed and floating charge against the assets of the Company.

Other than the above, there have been no other events that occurred since the reporting date which would materially impact on the financial position of the Company and its controlled entities.

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.

Transactions with related parties:

Director Related Entities:

Global Internet Billing Pty Limited

Chris Thorpe is a director and shareholder of Global Internet Billing (Australia) Pty Limited ("GIB"). GIB supplied premium rate telephone numbers through its Australian Premium Rate licence to Global One Mobile Entertainment Pty Ltd ("Global One") and passed on 100% of revenue generated. No margin was ever retained by GIB and no management fees have ever been charged by GIB for the on-going use of this licence by Global One.

No revenue was passed through GIB for the period 1 July 2010 to 30 June 2011 (2010: \$547,777).

As at 30 June 2011 there are no amounts receivable from GIB (2010: \$41,603).

As at 1 July 2010 the Australian Premium Rate licence held by GIB was novated to Global One at no cost.

Chris Thorpe Loan

The employee loan outstanding to Chris Thorpe as at 30 June 2011 was nil (2010: \$106,994). The interest rate charged on the loan during the financial year was the FBT benchmark interest rate incurring an interest charge of \$3,574 (2010: \$10,414). This eliminates the on-going related party transaction going forward.

During the year no amounts were paid to Her Story Pty Ltd t/as Paradigm Print for printing services (2010: \$4,639). Her Story Pty Ltd is a company controlled by Mrs Jane Thorpe, the spouse of Chris Thorpe.

Gavin Whyte is a director and shareholder of Rubber Duck Consulting Limited, a company incorporated in the United Kingdom. No amounts were paid to Rubber Duck Consulting Limited by Global One Mobile Entertainment Pty Ltd during the financial year for revenue share commission (2010: \$6,292).

Note 27. Contingent Liabilities

Other than the matter discussed in Note 19, the following contingent liability currently exists but has not been booked as an expense:

Two subsidiaries of the Company, Global One Mobile Entertainment Pty Ltd (Global One) and 6G Pty Ltd (6G), were involved in Federal Court proceedings commenced by the Australian Competition and Consumer Commission (ACCC) in relation to four advertisements which the ACCC alleged were misleading and deceptive. On Thursday 21 April 2011, the Federal Court delivered reasons for judgment in those proceedings and in light of the reasons, the court will order, among other matters, that Global One pay a penalty of \$150,000 and 6G pay a penalty of \$225,000.

On 15 June 2011, the Federal Court made orders in the proceedings where the Federal Court formally made the orders as to penalty. The Federal Court also ordered, amongst other things, that Global One and 6G implement a compliance plan to ensure breaches of the Australian Consumer Law do not occur in the future and made declarations in relation to the four advertisements which were the subject of the proceedings. The Federal Court also ordered that the orders in relation to the penalties and the order as to costs payable by Global One and 6G be stayed pending the outcome of any appeal proceedings, provided that Global One and 6G file an appeal.

Having considered the Court's reasons Global One and 6G have appealed the decision. As at the date of this report the matter is yet to be heard.

Note 28. Leasing Commitments

	Consolidated Group	
	2011	2010
	\$	\$
a) Hire-purchase commitments		
Payable		
- not later than one year	33,618	33,476
- later than one year but not later than five years	8,227	41,845
Minimum payments	41,845	75,321
Less: future finance charges		
Present value of minimum payments	(2,747)	(8,369)
Minimum hire-purchase payments	39,098	66,952

The hire-purchase agreement on computer equipment which commenced in 2010 has a three year term.

b) Operating lease commitments

Non-cancellable operating lease contracted for but not recognised in the financial statements:

Payable		
- not later than one year	274,486	269,871
- later than one year but not later than five years	139,604	404,808
	414,090	674,679

The property lease is a non-cancellable three year term lease with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments may be increased by the lower of current market rental values or 3.5% per annum. An option exists to renew the lease at the end of the three year term for an additional term of three years. The lease allows subletting for all lease areas.

Note 29. Financial Risk Management

The Group does not engage in any significant transactions that are speculative in nature.

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from subsidiaries.

The Board of Directors monitor and manage financial risk exposures of the Group. The Board monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to counterparty credit risk, currency risk, financing risk and interest rate risk.

The Board's overall risk management strategy seeks to assist the Group in meeting its financial targets while minimising potential adverse effects on financial performance.

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and interest rate risk.

a) Interest Rate Risk

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

Consolidated Group	Weighted Average Interest Rate %	Non-Interest Bearing \$	Fixed Interest Rate Maturing		Floating Interest Rate \$	Total \$
			1 Year or Less \$	1 to 5 Years \$		
2011						
Financial Assets:						
Cash and cash equivalents	3.37	2,845	5,000	-	100,291	108,136
Trade and other receivables		1,300,465	-	-	-	1,300,465
		1,303,310	5,000	-	100,291	1,408,601
Financial Liabilities:						
Trade and other payables		1,627,763	-	-	-	1,627,763
Borrowings	13.75	-	329,324	48,663	-	377,987
		1,627,763	329,324	48,663	-	2,005,750

	Weighted Average Interest Rate %	Non-Interest Bearing \$	Fixed Interest Rate Maturing		Floating Interest Rate \$	Total \$
			1 Year or Less \$	1 to 5 Years \$		
2010						
Financial Assets:						
Cash and cash equivalents	3.73	8,487	-	-	821,024	829,511
Trade and other receivables		1,853,742	-	-	-	1,853,742
		1,862,229	-	-	821,024	2,683,253
Financial Liabilities:						
Trade and other payables		1,559,191	-	-	-	1,559,191
Borrowings	10.33	-	27,854	39,098	-	66,952
		1,559,191	27,854	39,098	-	1,626,143

Note 29. Financial Risk Management (continued)

b) Credit Risk

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

The Group does have a material credit risk exposure to a debtor under financial instruments entered into by the Company. The Group's exposure to Sybase Australia Pty Ltd as at the end of the financial year was \$805,970 (30 June 2010 - \$1,229,165).

c) Net Fair Values

The carrying value of financial assets and financial liabilities recorded in the statement of financial position approximates their respective net fair values. Fair values are determined by reference to standard terms and conditions, quoted market prices, where available, or discounting expected future cash flows.

d) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities;
- using derivatives that are only traded in highly liquid markets;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The Group's policy is to ensure no more than 30% of borrowings should mature in any 12-month period. The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Consolidated Group	Within 1 Year		1 to 5 Years		Total	
	2011	2010	2011	2010	2011	2010
Financial liabilities due for payment						
Loans	329,324	27,854	48,663	39,098	377,987	66,952
Trade and other payables	1,627,763	1,559,191	-	-	1,627,763	1,559,191
Financial guarantees	-	-	-	-	-	-
Total contractual outflows	1,957,087	1,587,045	48,663	39,098	2,005,750	1,626,143
Less bank overdrafts	-	-	-	-	-	-
Total expected outflows	1,957,087	1,587,045	48,663	39,098	2,005,750	1,626,143
Financial assets – cash flows realisable						
Cash and cash equivalents	108,136	829,511	-	-	108,136	829,511
Trade and loan receivables	1,300,465	1,853,742	-	-	1,300,465	1,853,742
Total anticipated inflows	1,408,601	2,683,253	-	-	1,408,601	2,683,253
Net (outflow)/ inflow on financial instruments	(548,486)	1,096,208	(48,663)	(39,098)	(597,149)	1,057,110

Directors' Declaration

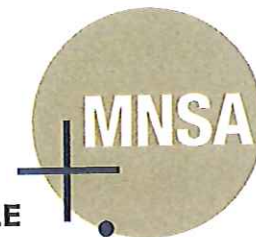
The directors of the company declare that:

1. the financial statements and notes, as set out on pages 20 to 59, are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards which as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - b. give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the company and consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with s 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. 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.



Chris Thorpe
Director
30 September 2011



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MOBILE EMBRACE LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Mobile Embrace Limited (the company) and Mobile Embrace Limited and Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information 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 that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

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. Those standards require that we comply with relevant ethical requirements relating to audit 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 judgment, 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.

Our procedures included reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

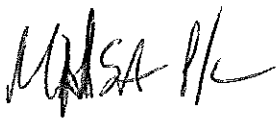
- a. the financial report of Mobile Embrace Limited and Mobile Embrace Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 13 to 16 of the directors' report for the year ended 30 June 2011. 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 Mobile Embrace Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.



MNSA Pty Ltd



Phillip Miller
Director

Sydney
Dated this 30th September 2011

Mobile Embrace Additional Investor Information

1. Shareholding

Distribution of Shareholders as at 26 September 2011:

Category (size of holding)	Total Holders	Units	% Held of Issued Ordinary Capital
1 - 1,000	48	28,155	0.01
1,001 - 5,000	203	739,698	0.38
5,001 - 10,000	183	1,631,749	0.83
10,001 - 100,000	363	15,101,574	7.67
100,001 - and over	156	179,265,507	91.11
	953	196,766,683	100.00

The number of shareholdings held in less than marketable parcels is 596.

The substantial shareholders listed in the holding company's register as at 26 September 2011 are:

	Number Ordinary Shares
Waughdoc Pty Limited	26,676,639
MBL Employee Share Plan Managers Pty Limited	16,032,258
Communittee Pty Limited	12,033,000
Spinite Pty Ltd	10,000,000
Equipment Company of Australia Pty Limited	9,971,500

20 Largest Shareholders - Ordinary Shares:

	Number Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. Waughdoc Pty Ltd	26,676,639	13.56%
2. MBL Employee Share Plan Managers Pty Limited	16,032,258	8.15%
3. Communittee Pty Limited	12,033,000	6.12%
4. Spinite Pty Ltd	10,000,000	5.08%
5. Equipment Company of Australia Pty Limited	9,971,500	5.07%
6. Bouta Pty Limited <JB Martel Practice S/F A/C>	8,396,214	4.27%
7. Bouta Pty Limited	6,592,411	3.35%
8. Custom AV Pty Ltd	4,852,138	2.47%
9. Mr Anthony Chambers	3,800,000	1.93%
10. Ms Ethel Isabella Byrne	3,581,171	1.82%
11. Equity Trustees Limited <RF Cameron Super Fund>	3,559,127	1.81%
12. Playercorp Pty Ltd <SJ Player Family A/C>	3,280,000	1.67%
13. Apollan Pty Ltd	2,874,508	1.46%
14. DKR Direct Pty Ltd <The Dominic Roche Family A/C>	2,687,306	1.37%
15. Mrs Sally Jones	2,250,671	1.14%
16. Connaught Consultants (Finance) Pty Ltd <Super Fund A/C>	2,249,532	1.14%
17. Longjohn Investments Pty Ltd	2,120,000	1.08%
18. Millgrand Pty Ltd <ABR Family Account>	1,941,457	0.99%
19. Mr Craig Ellis	1,604,958	0.82%
20. Michael Nicholas Lucas	1,520,000	0.77%
	126,022,890	64.05%

Mobile Embrace Additional Investor Information (continued)

1. Shareholding (continued)

Voting rights

The voting rights attached to each class of equity security are as follows:

At 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.

2. Company Secretary

As at the date of this report, the Company Secretary is Mr Paul Jeronimo

3. Address of Principal Registered Office

Westfield Towers
Level 10, 100 William Street
EAST SYDNEY NSW 2011 Australia

4. Share Registry

Registers of securities are held by Computershare Investor Services Pty Limited at the following address:

Level 5, 115 Grenfell Street
Adelaide SA 5000

Postal address: GPO Box 1903
Adelaide SA 5001

Enquiries within Australia:

1300 556 161

Enquiries outside Australia:

61 3 9415 4000

Email:

web.queries@computershare.com.au

Website

www.computershare.com

5. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Listing.

6. Dividends

No dividends have been paid by MBE for the year.

7. On Market Buy Back

There is no on-market buy back at the date of this report.

8. Investor Support

If you have any queries regarding your investment, please contact Computershare toll free on 1300 556 161 or visit their website at www.computershare.com. Please note there is a section of the website designed to provide shareholders with the forms necessary to initiate changes of the details held at the registry. This service is available from 8.30 to 17.30 (Sydney time) on all business days. Enquiries may also be emailed via Computershare's website.

9. Annual Report

All shareholders are entitled to receive a copy of the Annual Report. If you do not require the Annual Report, or if you receive more copies than you require, please notify Computershare. The Annual Report and Financial Statements can also be downloaded from the company's website www.mobileembrace.com.