



31 August 2011

Chairman's Letter to Shareholders

Dear Shareholders,

The 2011 financial year was challenging for Mobile Embrace Limited. After what was a positive start to the year, focusing on the strategic vision outlined at the last AGM, the financial results were impacted by a number of external factors.

However, senior management has been extremely busy in dealing with these issues and laying the foundation for improved results. A 9.6% jump in revenue in the June quarter indicates the inherent value of these actions. The September quarter is also progressing well, on target to deliver greater than 10% growth on the June quarter.

On 14 July 2011 your Company changed from MobileActive Limited to Mobile Embrace Limited. This was much more than just a change of name. It signified a substantial and necessary transition in focus for the Company.

These changes are designed to improve the performance of Mobile Embrace both in the short and long term. In particular, we have significantly grown our capabilities and position in mobile business-to-business integrated mobile and digital communications. This has been done while reducing overheads and reorganising our legacy retail business.

In addition, investments made during the financial year were an important part of transitioning the company into **Mobile Embrace Limited**, an integrated mobile and digital communications company, fully equipped and already benefitting from rapidly expanding markets. I will talk further about this transition and the achievements of Mobile Embrace to date, but first I would like to review the performance of the company that was MobileActive Limited during the 2011 financial year.

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We flagged an anticipated decline in earnings in November 2010. During the year the Company's financial results were impacted by 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.

In response to the difficult trading environment, the Company reduced overheads significantly, and since the start of the new fiscal year these have been further reduced. From 1 July 2011, the CEO, MD, CFO and myself elected to take a temporary pay reduction to assist the company.

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

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, the launching of racing and sports tournaments on the platform and most recently the launch of race betting on 25 August 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

Also throughout the 2011 financial year it was essential that we make investments in areas forecast for strong and sustained growth that could also impact short-term results in order to build greater returns in the long-term.

The requirements to transition the business were considerable.

Still, these were made possible by the expertise, dedication and commitment of the staff led by our senior management team without whom I believe this transition could not have been achieved in the timeframe. This team has extensive skills and experience in the development of businesses in telecommunications and technology, vital to the company achieving its goals.

Additionally this transition was achieved in an environment of increased pressure on the legacy retail business and significant reduction in overhead, including reducing senior management headcount. As announced 28 June 2011 the legacy retail business will be phased out over time.

The Company's mobile content production and licensing division, RingRing Studios, launched a number of new distribution channels during the year and continued to generate sales through the distribution of its mobile applications through its global network.

Technology and relationship cornerstones were cemented during the year.

In May 2010, we 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 with revenues for calendar year 2010 of £78million.

In November 2010, we announced a majority holding in a joint venture with the UK's largest premium mobile advertising company, 4th Screen Advertising, to establish 4th Screen Advertising Australia.

June 2011 saw the completion of the integration of the MIG SMS billing gateway platform (for sending and receiving premium rate SMS to and from mobile phones) along with the establishment of direct connections to the major Australian telecommunications carriers. The positive effects of this will start to be realised over the coming months as our premium rate SMS traffic moves from third party to the direct connections thus improving margins.

Fiscal 2011 involved the establishment of MIG and 4th Screen technology platforms with MobileActive's proprietary technology infrastructure, the setup of services and the recruitment of specialist sales staff.

As Mobile Embrace, we have positioned the Company to take full advantage of the strong brand that was developed in the business-to-business division and was symbolic of the Company's increased focus on integrated mobile and digital communications.

So what is the business model of Mobile Embrace, why are its opportunities so strong and what has been achieved thus far?

It is now well established that every day more and more people are accessing websites via their mobile devices. This is accelerating with the rapid adoption of smart phones and it is forecast that by 2013 mobile will exceed any other form of internet access in Australia. At the same time, increasingly, Australian businesses are relying on the internet as a vital channel to market.

Any business that considers its website an important component of their business must now address this issue or risk being left behind.

It is not just a situation of staying ahead of competitors, but of keeping up with where customers are - they are on their mobile phones. It is now a necessity for businesses to embrace mobile. A recent study of 100 prominent Australian businesses found 74% of them did not have a mobile optimised website. Accessing the internet via mobile (the mobile internet) has specific considerations.

Mobile handsets are many and varied and accessing a website from a mobile phone is very different to accessing a website from a desktop computer. The user experience can vary dramatically depending on the users' mobile handset and if websites are not optimised for mobile, the user experience can be very disappointing and customer engagement can be severely affected.

Mobile Embrace provides the solution to these issues and enables businesses to move their presence from the 'desktop' internet to the mobile internet. What would otherwise be made complex due to the broad diversity in mobile operating systems and handsets and unique business requirements is made simple by Mobile Embrace's integrated suite of mobile technology platforms.

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

Sales of Mobile Embrace integrated mobile and digital communications have been in effect for approximately six months, although not all platforms were live in this time.

Activity is progressing well with an expanding client list that now includes Toyota, Qantas, Telstra, Gillette, Aussie Home Loans, Paramount, McDonalds, FOX8, FOX SPORTS, Network 10, Nestle and 20th Century FOX.

The Company has signed a strategic alliance with behavioural marketing company Global Red, whose clients include Priceline, Fitness First, NRMA and Officeworks and has also signed an exclusive mobile advertising technology provider agreement with Multi Channel Networks (MCN) who are responsible for advertising across 50 FOXTEL channels.

In addition to developing business in Australia and New Zealand, the exclusive technology license and commercial partnership with MIG has now been extended to include South East Asia with initiation of activities in planning for 2012.

As previously noted in the Company's 31 December 2010 half year financial report, additional funding is required to commercialise the business. On 30 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; 4.8 million options with a \$0.025 cent strike price will be issued as part of this agreement.

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.

Regardless of the challenges of the last financial year, the difficult trading environment, increased regulation and other external impacts, the Company has been transitioned into an area of the industry that, by indication and market forecasts, I believe offers growth opportunities and the potential for shareholder returns far greater than when the Company had primarily a mobile content retail focus.

In order for the Company to reach its potential as a provider of integrated mobile and digital communications we must build on the extensive and complex work already performed and further improve.

We will continue to be focused on attracting and retaining the best staff to enable the Company to reach its goals. We will continue to optimise value, both cash and intellectual property, from the pre-transition retail business to assist in driving the growth of Mobile Embrace.

We are committed to the Company having access to funding where and as required to support commercialisation and expansion. As the industry grows and evolves we intend for Mobile Embrace to build substantially on its positioning and be a major player.

Thank you for your commitment to see the company through this transition and for your continued support.

A handwritten signature in black ink, appearing to read 'D Haines', with a long horizontal flourish extending to the right.

David Haines
Chairman

DISCLAIMER

Forecasts and estimates may be materially different and may be affected by many factors such as the timely release of services, dependencies on carriers, the overall global economy, competition in the industry and other events beyond the control of or unforeseen by MobileEmbrace Limited.

About Mobile Embrace Limited

Mobile Embrace Limited (ASX:MBE) is Australia's leading integrated mobile and digital communications company.

The company enables businesses to embrace the mobile opportunity, to reach further than before to engage existing customers and to find new customers via the mobile phone with highly interactive mobile solutions.

Mobile Embrace makes it simple for its clients to integrate mobile into their business 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 enablement and customer acquisition solutions for business.

For more information see www.mobileembrace.com