

*Mobile Embrace Limited*  
*(formerly MobileActive Limited)*

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**Preliminary Final Report of Mobile Embrace Limited  
for the Financial Year Ended 30 June 2011**

(ACN 089 805 416)

This Preliminary Final Report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period:           Financial Year Ended 30 June 2011

Previous Corresponding Period:   Financial Year Ended 30 June 2010

*Mobile Embrace Limited*  
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**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

<b>Revenue and Net Profit</b>		<b>Percentage change</b>		<b>Amount \$</b>
Revenue from ordinary activities	down	26.9%	to	8,824,413
Earnings before interest, depreciation, and amortisation	down	170.5%	to	(981,782)
Loss from ordinary activities before tax attributable to members	down	1914.0%	to	(2,569,630)
Net profit for the period attributable to members	down	3271.7%	to	(2,586,748)

<b>Dividends</b>		<b>Amount per security</b>		<b>Franked amount per security</b>
No dividends were paid or declared during the period		-		-

<b>Net Tangible Asset Backing</b>		<b>¢ per share 2011</b>		<b>¢ per share 2010</b>
Net tangible assets per security		(0.24)		0.05

**Brief Explanation of Figures Included Above**

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.

The Company has significantly grown its capabilities and position in mobile business-to-business technology and services. This has been done while reducing overheads and reorganizing its legacy retail division that will be phased out over time.

- Sales Revenue of \$8.824 million (down 26.9% compared to prior year)
- Advertising expenditure \$1,634,935 (down on prior year 2009-10: \$3,412,009)
- Legal expenses \$419,204 (2009-10: \$79,049)
- EBITDA \$981,783 loss compared to prior year \$1,392,424 profit. Current year includes \$621,000 EBITDA loss consolidated from controlled start up businesses 12Follow Pty Ltd and Topbeta Pty Ltd.
- Intangible asset impairment charge \$448,614. Relating to the retail division.
- Deferred tax asset impairment charge \$399,058
- Group Net Loss After Tax of \$2,586,748

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**Consolidated income statement  
for the financial year ended 30 June 2011**

	Note	<b>Consolidated Group 2011 \$</b>	<b>2010 \$</b>
Revenue from services rendered		8,824,413	12,073,073
Cost of sales		<u>(1,060,207)</u>	<u>(1,097,083)</u>
		7,764,206	10,975,990
Interest income		14,776	33,489
Other income from ordinary activities		-	-
Service providers and commissions		(81,765)	189,992
Administration expenses		(179,492)	(208,156)
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 and equipment		(1,861)	(2,768)
Employee benefits expense		(5,367,155)	(4,551,002)
Legal expenses		(419,204)	(79,049)
Occupancy expenses		(320,068)	(286,217)
Operational expenses		(312,843)	(870,683)
Other expenses from ordinary activities		<u>(445,302)</u>	<u>(397,931)</u>
<b>Profit / (loss) before income tax</b>		<b>(2,569,630)</b>	<b>141,648</b>
Income tax expense		<u>(399,058)</u>	<u>(82,362)</u>
<b>Profit / (loss) for the year</b>		<b>(2,968,688)</b>	<b>59,286</b>
Non-controlling interest share		<u>381,940</u>	<u>22,270</u>
<b>Profit / (loss) attributable to members of the parent entity</b>		<b>(2,586,748)</b>	<b>81,556</b>
Basic earnings per share (cents per share)	8	(1.33)	0.04
Diluted earnings per share (cents per share)	8	(1.27)	0.04
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		<u>(2,968,688)</u>	<u>59,286</u>
Total comprehensive income for the year		<u>(2,968,688)</u>	<u>59,286</u>
Members of the parent entity		(2,586,748)	81,556
Minority equity interest		<u>(381,940)</u>	<u>(22,270)</u>
		<u>(2,968,688)</u>	<u>59,286</u>

The accompanying notes form part of these financial statements

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**Consolidated statement of financial position as at 30 June 2011**

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

The accompanying notes form part of these financial statements

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**Consolidated statement of cash flows  
for the financial year ended 30 June 2011**

	Notes	<b>Consolidated Group</b>	
		<b>2011</b>	<b>2010</b>
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		9,434,741	12,594,007
Payments to suppliers and employees		(9,787,455)	(11,914,890)
Interest received		14,776	33,489
Tax refund		4,161	-
		<hr/>	<hr/>
<b>Net cash provided / (used) by operating activities</b>	5	(333,777)	712,606
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in subsidiaries		(100,359)	(100,358)
Purchase of property, plant and equipment		(42,070)	(132,940)
Purchase of intangible assets		(856,204)	(960,563)
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		(998,633)	(1,193,861)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		311,035	66,952
Issue of capital		300,000	-
		<hr/>	<hr/>
<b>Net cash provided by financing activities</b>		611,035	66,952
<b>Net decrease in cash held</b>		<hr/> (721,375) <hr/>	<hr/> (414,303) <hr/>
<b>Cash at beginning of financial year</b>		<b>829,511</b>	<b>1,243,814</b>
<b>Cash at end of financial year</b>		<b>108,136</b>	<b>829,511</b>

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**Consolidated statement of changes in equity  
for the financial year ended 30 June 2011**

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

The accompanying notes form part of these financial statements

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## **1. Basis of preparation**

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The financial statements are a 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 a financial report 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 report has been prepared on an accruals basis and is 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.

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).

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

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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.

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**b. Income Tax**

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

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).

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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.

**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:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
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.

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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.

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

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**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.

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.

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**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.

**l. 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).

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**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.

Key Judgments - Provision of Impairment of Receivables

No 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).

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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:

- 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.

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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).

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

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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.

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 11, 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. 4.5 million options with a \$0.025 cent strike price will be issued as part of this agreement.

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

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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.

## 2. Profit from operations

Profit from operations includes the following items of revenue and expense:

<b>Profit from operations includes the following items of revenue and expense</b>	<b>Consolidated</b>	
	<b>2011</b> \$	<b>2010</b> \$
<b>(a) Operating revenue</b>		
Management fee	-	-
<b>(b) Operating expenses</b>		
Interest expense	20,574	5,278
Legal expenses	419,204	79,049
Advertising and marketing expenses	1,634,935	3,412,009
Impairment of MER retail business intangible assets	448,614	37,143
<b>(c) Contingent liabilities</b>		
<p>On 22 October 2010, the Company announced that the ACCC had commenced proceedings against two of its wholly owned subsidiaries; Global One Mobile Entertainment Pty Limited (Global One) and 6G Pty Limited (6G).</p> <p>On 21 April 2011, the Federal Court delivered reasons for judgement, with the court ordering that Global One pay a fine of \$150,000 and 6G pay a fine of \$225,000 and an order as to costs.</p> <p>On 15 June 2011, Global One and 6G confirmed an appeal would be lodged.</p>		

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### 3. Commentary on consolidated results

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.

#### Operating Results

(\$ million)	FY 2011	FY 2010	Variance
Revenue	\$8.82	\$12.07	(\$3.25)
Advertising expense	\$1.63	\$3.41	\$1.78
<b>EBITDA</b>	<b>(\$0.98)</b>	<b>\$1.39</b>	<b>(\$2.37)</b>
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)
<b>Net Profit After Tax</b>	<b>(\$2.59)</b>	<b>\$0.08</b>	<b>(\$2.67)</b>

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.

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

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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 optimized 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.

### **Cashflow**

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 commercialize 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; 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 commercialization 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.

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**4. Accumulated losses**

	<b>Consolidated</b>	
	<b>2011</b> \$	<b>2010</b> \$
Balance at beginning of financial year	(13,962,217)	(14,043,773)
Net profit /(loss) attributable to members of the parent entity	(2,586,748)	81,556
Balance at end of financial year	(16,548,965)	(13,962,217)

**5. Notes to the cash flow statement**

	<b>Consolidated</b>	
	<b>2011</b> \$	<b>2010</b> \$
(a) Reconciliation of cash and cash equivalents		
For the purpose of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the statement of financial position as follows:		
Cash and cash equivalents	108,136	829,511
Balance at end of financial year	108,136	829,511

(b) Reconciliation profit for the period to net cash flow from operating activities		
Profit / (loss) for the period	(2,968,688)	59,286
Depreciation	107,522	107,087
Amortisation / impairment of non-current assets	1,459,753	1,098,500
Employee equity settled benefits	-	-
Deferred tax asset recognised on tax losses	403,220	82,362
<b>Changes in assets and liabilities:</b>		

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Decrease/(increase) in receivables	579,867	502,362
Decrease/(increase) in other current assets	30,461	18,572
Increase/(decrease) in trade creditors	14,286	(783,135)
Increase/(decrease) in provisions	39,802	(372,428)
<b>Net cash provided / (used) by operating activities</b>	<b>(333,777)</b>	<b>712,606</b>

**6. Details relating to dividends (distributions)**

	<b>Date dividend payable</b>	<b>Amount per security ¢</b>	<b>Amount per security of foreign sourced dividend ¢</b>
<b>Interim dividend</b>			
- 2011	N/A	Nil	Nil
- 2010	N/A	Nil	Nil
<b>Final dividend</b>			
- 2011	N/A	Nil	Nil
- 2010	N/A	Nil	Nil
<b>Dividend reinvestment plans</b>			
N/A			

**7. Net tangible assets per security**

	<b>Consolidated</b>	
	<b>2011 ¢ per share</b>	<b>2010 ¢ per share</b>
Net tangible assets per security	(0.24)	0.05

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**8. Earnings per share**

	<b>Consolidated</b>	
	<b>2011 ¢ per share</b>	<b>2010 ¢ per share</b>
Basic earnings per share	(1.33)	0.04
Diluted earnings per share	(1.27)	0.04

**Basic Earnings Per Share**

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	<b>2011 \$</b>	<b>2010 \$</b>
Profit / (loss)	(2,586,748)	81,556

	<b>2011 No.</b>	<b>2010 No.</b>
Weighted Average number of ordinary shares	194,273,532	186,766,683

**Diluted Earnings Per Share**

The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of basic earnings per share are as follows:

	<b>2011 \$</b>	<b>2010 \$</b>
Profit	(2,586,748)	81,556

	<b>2011 No.</b>	<b>2010 No.</b>
Weighted Average number of ordinary and potential ordinary shares	203,595,386	196,291,397

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**9. Details of entities over which control has been gained or lost**

**Control gained over entities**

Name of entity (or group of entities)	N/A
Date control gained	N/A

	<b>2011</b> \$
Contribution of the controlled entity (or group of entities) to profit/(loss) from ordinary activities during the period, from the date of acquisition.	(-)
	<b>2010</b> \$
Net profit/(loss) of the controlled entity (or group of entities) for the whole of the previous corresponding period.	(22,359)

**Loss of control of entities**

Name of entity (or group of entities)	N/A
Date control gained	N/A

	<b>2011</b> \$
Contribution of the controlled entity (or group of entities) to profit/(loss) from ordinary activities during the period, to the date of losing control	Nil
	<b>2010</b> \$
Net profit/(loss) of the controlled entity (or group of entities) for the whole of the previous corresponding period.	Nil

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**10. Details of associates and joint venture entities**

Name of entity	Ownership interest		Contribution to net profit / (loss)	
	2011 %	2010 %	2011 \$	2010 \$
<b>Associates</b>	-	-	-	-
<b>Joint venture entities</b>	-	-	-	-

**11. Subsequent events**

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.

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.

**12. Information on audit or review**

This preliminary final report is in the process of being audited or subject to review.

Description of any likely disputes or qualifications where the audit/review is not yet complete:

N/A

Description of the dispute or qualification where the audit/review is complete.

N/A