protel

INTERNATIONAL LIMITED

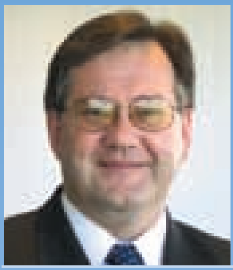
Annual Report

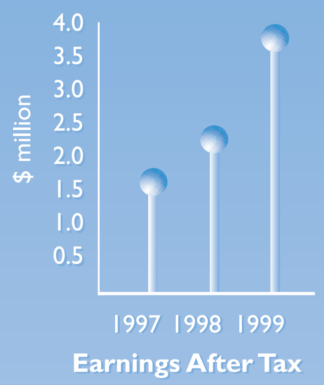
Contents

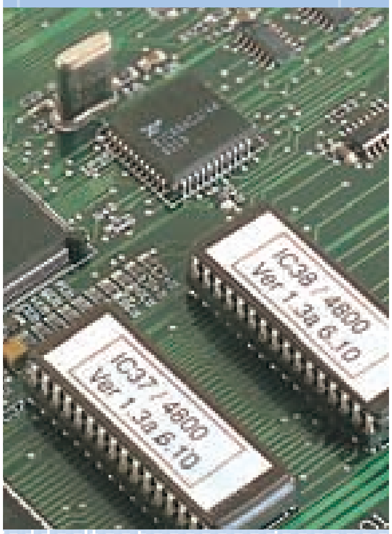
ANNUAL GENERAL MEETING

ANA Hotel
Level 3, Essex Room
176 Cumberland Street
The Rocks, Sydney
on 30 September 1999 at 3pm

Chairman's review







I am delighted to welcome you as shareholders in Protel International Limited to the Company's first Annual Review as a publicly-listed company. The Protel International group this year has achieved another outstanding performance, with revenue from operating activities and operating profit after tax both coming in well above our prospectus forecasts.

The success of the recent IPO has allowed the Board to focus on its key strategic objective -- to develop and acquire additional technologies to expand Protel's suite of integrated design tools. This will enable us to build shareholder value through sustainable growth in earnings.

During the year the Company released Protel 99, a major upgrade of its core product line that provides increased automation of the design process and enhanced integration between design tools, and features an integrated, team-based design environment. Also, during the year Protel acquired US-based company Accolade Design Automation Inc. and VHDL simulation technology from Green Mountain Computing Systems Inc. Protel's fast integration of acquired products and technologies, and the ability to quickly bring them to market as part of the Protel product line up demonstrates the Company's ability to successfully manage acquisitions.

Dividends

Dividends of $1,658,623 were paid during the year, which represented an increase of 16.8% over the previous year. The Directors intention is to distribute, as a franked dividend, in the order of 50% of the Company's earnings after tax. As stated in the Prospectus, the first dividend as a listed company is expected to be made in March 2000.

Board

The Directors welcomed the appointment of Mr William Bartee to the Board in May 1999. Mr Bartee is an independent director and brings experience in both Australian and US emerging growth technology companies. We look forward to his contribution to the ongoing success of the Company.

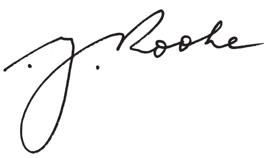
Year 2000 compliance

Protel recognises the need to be Year 2000 ready. We have implemented a comprehensive program to review Year 2000 compliance of both internal systems and products, and those programs licensed or acquired from third parties. The program is due for completion by 30 September 1999.

Outlook

The company is well positioned to take advantage of growth opportunities present in its markets as the industry undergoes further consolidation.

On behalf of the Board, I congratulate each and every Protel employee on the results for the year. We look forward to 2000 with the Protel team, ready to meet the challenges it will bring.



Carl J Rooke

Chairman

CEO's Report

I'm proud to announce that Protel International has delivered another set of strong financial results, positioning it well against competitors worldwide in the Electronic Design Automation (EDA) industry. Compared to the previous financial year, Protel has achieved 55% growth in revenue and 65% growth in profitability. Our strong balance sheet, with high levels of operating cash and sharply-reduced debt, gives us the stability and strength to aggressively compete in the global market for EDA software, with the aim of further increasing our market share and profitability.

Protel's highly successful float in early August 1999 capitalised the company at $238million as at 30th August 1999, ranking us the number one publicly-listed company worldwide in the Desktop EDA market. Our listing enables us to further leverage our leading-edge technologies and proven marketing strategies to further entrench Protel in its current market-leading position.

The rigorous IPO process placed significant demands on the Company and its staff, however we managed during this period to remain focused on our crucial product development schedule. Concentration on the integration of existing and recently-acquired technologies culminated in the successful release of the new Protel 99 product range.

We have based our formula for success on seamless product integration, exceptional customer service and strategic organisational change. During the year we critically reviewed and redesigned our US Sales and Support business model. A new formula was implemented and, based on its outstanding success, we now plan to implement this same model in our other major markets throughout the world.

By continuously adding new technologies and tools to our product range without increasing prices, we offer our customers increased value and a broader range of capabilities. This strategy encourages subsequent sales to the same customer, and improves customer retention. We will continue this strategy in the coming financial year.

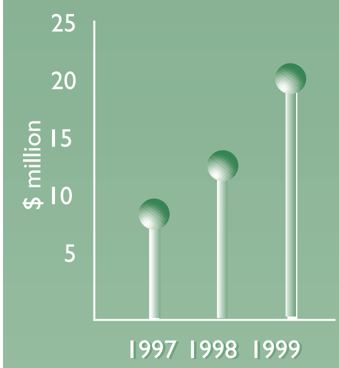
We recognise that our strong performance has been made possible through the expertise and total commitment of our people. Testimony to Protel's exceptional company-employee relationship is the fact that approximately 80% of permanent Australian-based staff participate in the employee share option plan which was put into place in 1997.

With our clearly-formulated strategies, state-of-the-art technologies and financial strength, we are well positioned to deliver superior returns to our shareholders and generate the capital needed to invest in the people, the innovative technologies and the ideas necessary to continue delivering superior products to our customers.

The coming financial year will see us focused on our acquisition program, the integration of acquired technologies and enterprises into Protel's business model, and the careful management of our cost structure to ensure profitability and shareholder value.

K. Oboudiyat

Kayvan Oboudiyat
CEO



Revenue

Protel 99... Complete board-level design

Superb schematic capture

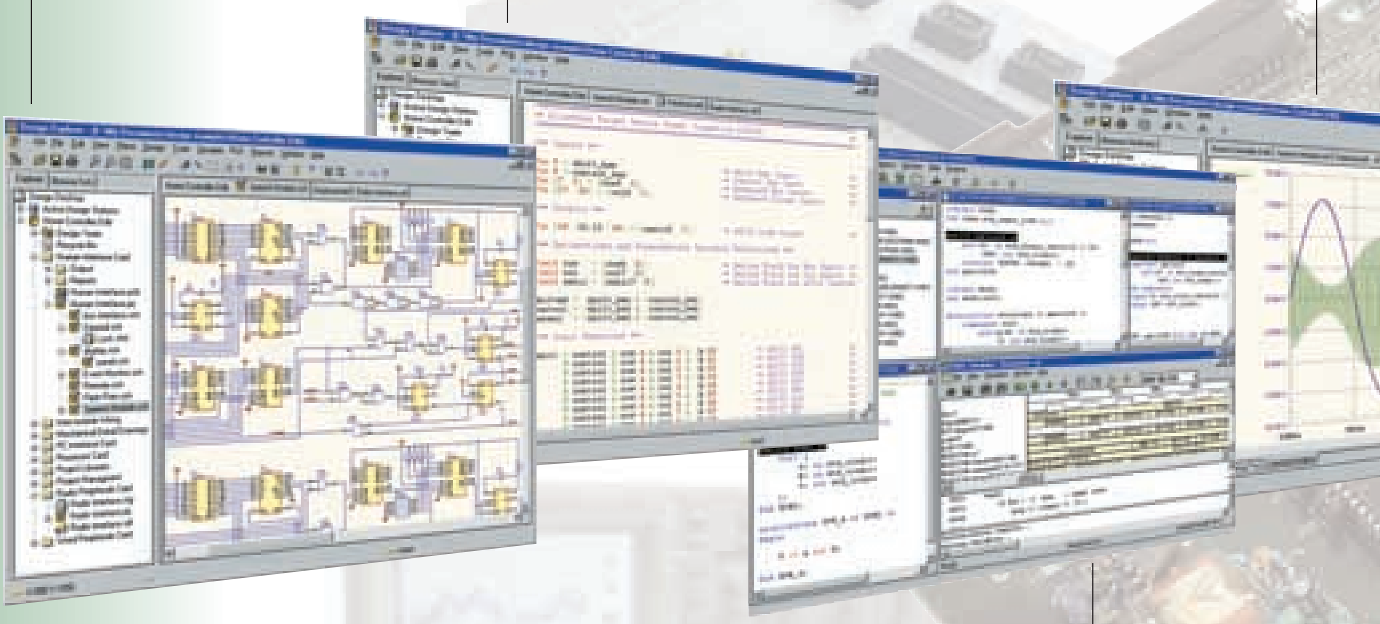
Protel 99 includes a superb multi-sheet hierarchical schematic editor that provides fast design entry with high quality output and over 60,000 supplied schematic symbols. Capturing your design has never been easier.

Versatile programmable logic design

Protel 99 features an integrated PLD development environment using schematic or CUPL-based design entry. Features universal device support, integrated functional PLD simulation and industry-standard JEDEC output. A perfect solution for all PLD and CPLD design jobs.

Advanced mixed-signal circuit simulation

Protel 99 gives you true mixed-mode circuit simulation based on the latest SPICE 3F5/XSPICE standard. The simulator is fully integrated with Protel 99's schematic editor to provide a complete front-end design solution.



VHDL design entry

Protel's PeakVHDL is a complete VHDL design entry solution that includes an integrated VHDL Hierarchy Browser, a built-in syntax-aware text editor, time-saving VHDL Wizards, a fast and powerful simulator with full support for timing back-annotation, and extensive on-line resources for the VHDL designer. Whether you're an experienced or occasional VHDL user, you'll get the job done easier with PeakVHDL.

Beyond the box

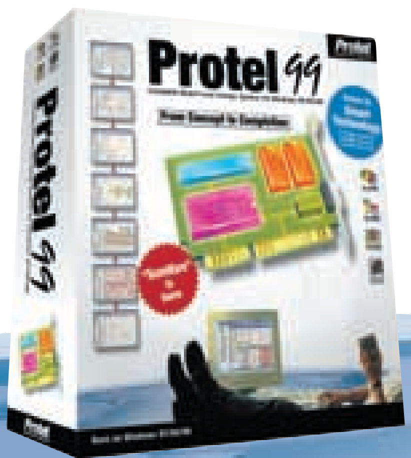
When you buy Protel 99 you get more than just the box... *free* technical support, *free* component libraries and models, *free* downloadable Service Packs, and *free* technical tips and industry information opens the door to a new world of design opportunities.

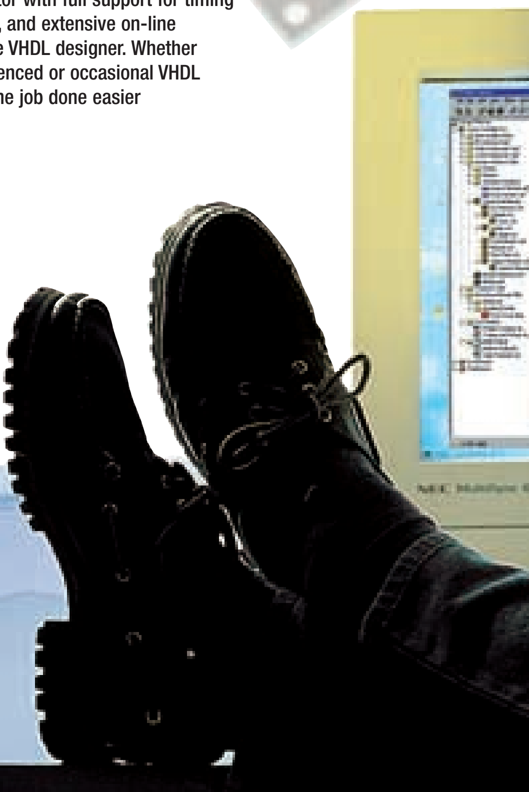
SmartTeam TECHNOLOGY

SmartDoc TECHNOLOGY

SmartTool TECHNOLOGY

Designed for Microsoft® Windows NT® Windows® 98





Protel®
Making Electronic Design Easy™

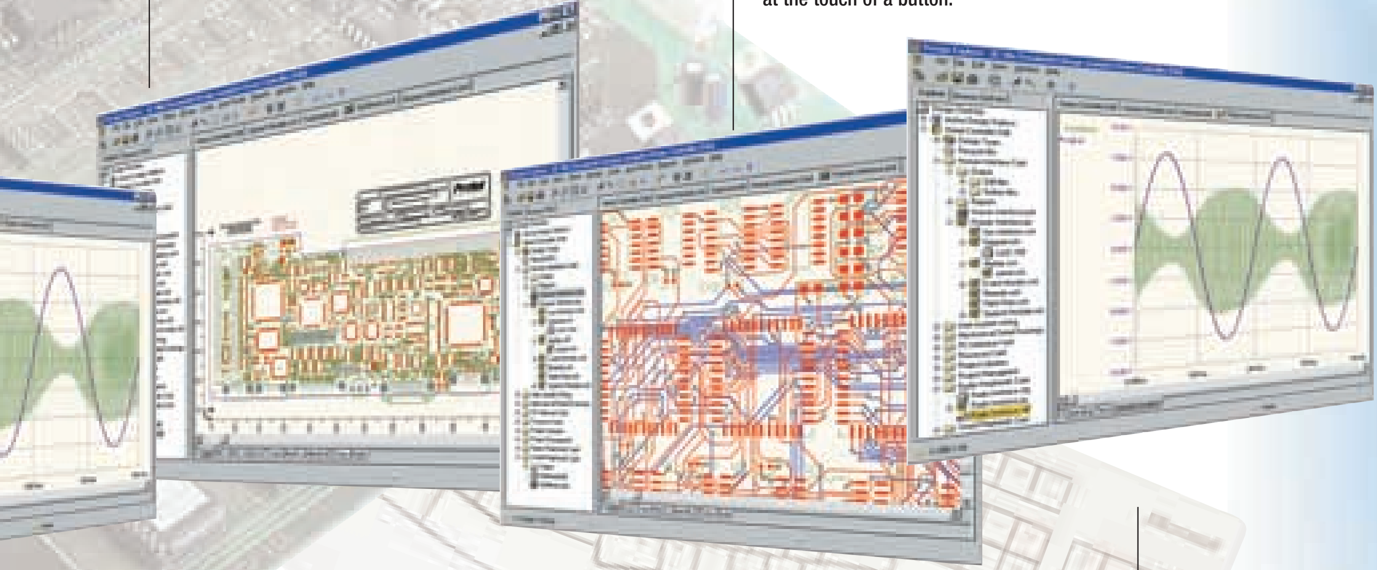
system for Windows NT/95/98

Powerful rules-driven PCB layout editor

Protel 99 combines smart manual and automated PCB design features in an interactive environment that supports both the new user and the experienced designer. Powerful design rules give you total control over the design parameters. The perfect balance of power and control.

Sophisticated shape-based autorouting

Protel 99 includes a fully-integrated shape-based 45° autorouter that is easy to use, yet produces routing like that of a professional board designer. Fast, effective autorouting at the touch of a button.

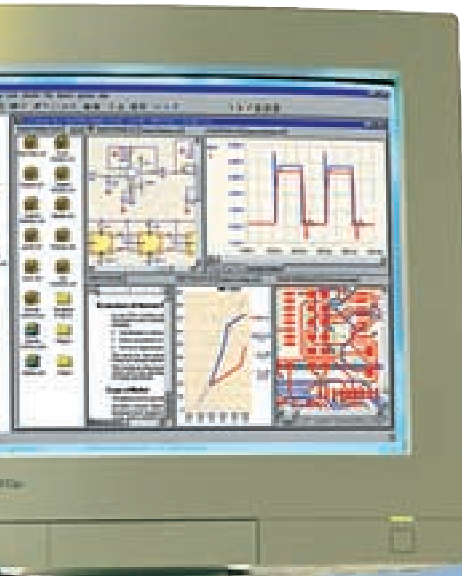


Smart Technology for smarter design

Protel's Smart**Tool**, Smart**Doc** and Smart**Team** technologies form the foundation of Protel 99 and provide you with a totally integrated design environment. Seamless tool integration, complete design document management, and built-in team collaboration and document sharing are just some of the benefits of Protel's Smart technologies.

Signal integrity simulator

Protel 99 includes advanced signal integrity simulator technology that provides extremely accurate analysis of your board's performance. Create rules to check your board for crosstalk, overshoot/undershoot, flight time and impedance problems. Minimize costly post-layout changes and solve your high-speed design and EMC/EMI problems before you take your board to manufacture.

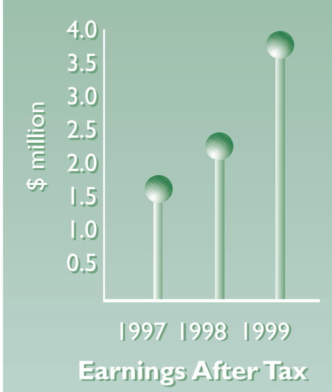


Contact details

Your nearest Sales and Support Centre can help you with your specific needs. Contact your local sales representative to see how easy it is to own Protel 99.

Review of operations

Marketing and selling activities occur on a global scale with over 90% of revenues derived outside of Australia



Group Overview

Business objectives

Protel International Limited and its controlled entities (the group) began operations in 1985 to develop personal computer-based software to aid in the design of Printed Circuit Boards (PCBs). Early tools were developed for use on PC's under a DOS operating environment, however Protel recognised the potential of the MS Windows platform and by the early 1990's, became the first EDA software developer to release a Windows based PCB design tool. As a result of the success of this PCB design package, Protel extended its product range to include schematic capture, PCB autorouting and automatic PCB component placement software and later, PLD design, simulation and signal integrity tools.

Protel's edge has always been in its philosophy to design EDA software that is easy to use and is priced within the reach of all electronic designers. That Protel have achieved this without compromising on features or performance is the underlying reason why Protel EDA software is used across a wide range of industries including telecommunications, consumer electronics, automotive, defence and science.

Recent technological advancement has been in the area of product integration. Protel's Design Explorer platform allows integration of its 6 main software tools (Schematic Capture, Simulation, PLD, PCB Layout, Autorouter, and Signal Integrity) into one product Protel 99. Protel 99 is one of the few EDA tool suites available for the Windows NT environment, the fastest growing segment of the EDA market. Technological leadership comes from in-house development and through the acquisition of strategic technologies. During the 1999 financial year, Protel acquired source code for Simulation, Signal Integrity and FPGA design, of which the first two components are already being shipped as part of Protel 99.

Review of Operations

Protel operated one core business activity, that of a provider of shrink-wrapped software for the design of electronic products. Marketing and selling activities occur on a global scale with over 90% of revenues derived outside of Australia. Major markets continued to be USA, Japan, Europe and Australia with sales growth achieved in all of these regions.

In April 1999, Protel released its latest product, Protel 99, which provides increased automation of the design process, further integration between its various design tools and integrated document management and design team collaboration features. Included in this release was technology acquired to assist analysis of Signal Integrity and a new Simulation engine, both of which had been acquired and developed during the current period. Gross Margins again exceeded 90% for the year.

Protel Sales & Support Offices

Japan

Australasia

North America

With the addition of the MicroCode business in September, Protel was able to restructure its North American operations in to two main centres, an R&D centre located in Orem and a new Sales and Support Centre located in Provo, both in Utah. The operations of the California based Sales and Support centre was merged with the Provo centre to create one main centre supporting all of North America. The location in Utah enables the company to better support East Coast time zones and reduces the costs of operating the business from the high cost Silicon Valley area. Abnormal costs associated with closure of Protel's Californian office have been identified in the financial report.

Investments for Future Performance

During the year the company undertook a number of strategic technology acquisitions to compliment its in-house developed intellectual property. Total value of intellectual property acquired was approx $7m with an additional $750,000 invested in integration of this technology. Consideration for these acquisitions included cash, deferred settlement and convertible debt. Further details can be found in note 16 to the accounts.

In addition to the above technology investments, the company expanded operations in Utah to support growth of sales in the North American market and to expand research and development (R&D) capability.

Marketing activities are focused on building brand awareness through increased advertising expenditure and direct mail campaigns. During the period the company conducted 8 direct mail campaigns compared to 3 in the previous corresponding period. These campaigns tailor specific offers to customers' dependant upon their current model of Protel software tool or previous upgrading activity.

Review of Financial Condition

Capital Structure

During the year the company raised funds through an issue of redeemable preference shares. This funding was raised to assist in financing technology purchases. The preference shares converted to ordinary shares on allotment of the company's shares on its listing on the Australian Stock Exchange (ASX) subsequent to year end. Additional consideration for technology acquisitions was made through the issue of two convertible notes. Details in relation to the conversion of these notes can be found in note 16 to the financial statements.

Subsequent to balance date, the company issued a prospectus for the sale of new Ordinary Shares, Vendor Shares and a proposed listing on the ASX. Details of this offer are contained in note 29 to the financial statements.

Treasury Policy

The company has not used hedging tools to manage its foreign exchange exposure. To date, the directors consider that natural hedges have provided adequate coverage of exchange risk.

Cash flows from Operations

The cash position of the company continues to improve as a result of operational activities. Surplus funds have been invested in technology acquisitions and further expansion of the operations. The cash position will continue to strengthen as future acquisitions are funded through funds raised from the company listing.

Corporate Governance

Corporate governance information is included on page 12 of the annual report.

Statement of Compliance

The above report is based on the guidelines in The Group of 100 Incorporated publication: Guide to Review of Operations and Financial Condition.

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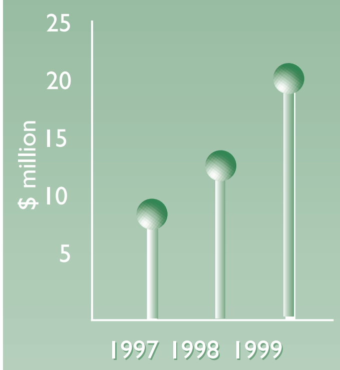
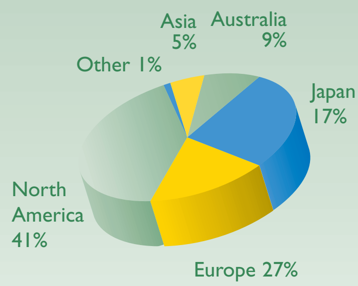


Revenue



Sales by Region

Protel International Limited and Controlled Entities

Financial Report 30 June 1999

ACN 009 568 772

Contents

Directors' Report

The directors of Protel International Limited present their report on the consolidated financial statements for the year ended 30 June 1999 and the auditors' report thereon.

Directors

The directors of Protel International Limited present their report on the consolidated entity consisting of Protel International Limited and the entities it controlled at the end of, or during the year ended 30 June 1999, and the auditors' report thereon.

The following persons were directors of Protel International Limited during the whole of the financial year and up to the date of this report:

CJ Rooke
K Oboudiyat
NM Martin
A Mirkazemi
DM Warren

WA Bartee became a director from his appointment on 10th May 1999.

Principal Activity and Review of Operations

The company's principal activity during the year continued to be that of the design, development and sale of computer software for the design of electronic products.

There were no significant changes in the nature of these activities during the year.
Refer to page 6 for a review of operations commentary.

Results

	1999 $	1998 $
Operating profit after income tax	3,810,626	2,307,769
Income tax expense	1,372,258	914,898

Dividends

Dividends paid or declared by the company since the end of the previous financial year were:

	1999 $	1998 $
An interim dividend of $400,000 was paid on 30th September 1998 and an interim dividend of $800,000 was paid on 30th March 1999. Both were fully franked to 100%.	1,200,000	1,020,000
A final dividend of $458,623 was paid on 30 June 1999 fully franked to 100%.	458,623	400,000
Total dividends provided for or paid in respect of the financial year ended 30 June 1999	1,658,623	1,420,000

Information on Directors

Name & Qualifications	Age	Experience and Special Responsibilities
Mr. Carl J Rooke FCA FAICD Non-Executive Chairman	53	Board member since 1990 Mr. Rooke is managing partner of Horwath Tas Pty Ltd and has served as Chairman of the Australian Board of Horwath. Mr. Rooke has also served on the Board of Horwath International.
Mr. Kayvan Oboudiyat B E (Hons) GDA Chief Executive Officer	51	Board member since 1997, Appointed CEO 1999 Mr. Oboudiyat was appointed Managing Director of Protel in 1997. Prior to joining Protel he spent 11 years as a senior executive in the International Business Unit of Telstra. He has had 25 years experience in the electronics industry in both small and large businesses. Mr Oboudiyat works in the areas of management of corporate affairs and mergers and acquisitions.
Mr. Nicholas M Martin Executive Director	37	Board member 1987-1988 1989-present Mr Martin founded the Protel business in 1985 after serving as a technical officer in University of Tasmania. Within Protel he has served as Director of Research and Development until 1991 at which time he assumed the position of CEO which he held until 1999. Mr Martin continues his role in research and development.
Mr. Aram Mirkazemi B E CS Executive Director	33	Board member since 1992 Mr. Mirkazemi has served as Protel's Director of Research and Development from 1992 until 1999. Mr Mirkazemi's expertise includes corporate, product and marketing strategy.
Mr. David M Warren B Phys (Hons) Executive Director	43	Board member since 1991 Mr Warren joined Protel in 1987 and has had various senior management roles including that of President of Protel's USA operation from 1994-1995. Since 1995 he has served Protel in the areas of mergers, acquisitions, sales and corporate development.
Mr. William A Bartee Non-Executive Director BS MBA JD	45	Board member since 1999 Mr Bartee joined Protel's board in May 1999 as an independent director. He is Investment Director of Macquarie Technology Funds Management Pty Ltd. He has 14 years experience in the US venture capital business. Since moving to Australia Mr Bartee has worked as a consultant in the disciplines of general corporate advice and marketing within the technology sector.

Directors' Report

Directors' Meetings

The number of meetings of the company's board of directors held during the year ended 30 June 1999, and the number of meetings attended by each director were:

Director	Number of meetings attended	Number held during time in office
CJ Rooke	5	5
K Oboudiyat	5	5
NM Martin	5	5
A Mirkazemi	5	5
DM Warren	4	5
WA Bartee	1	1

On 22nd June 1999 the board established an Audit committee and a Remuneration committee. As at the date of this report, the Audit Committee had held one meeting. The audit committee members are C J Rooke, W A Bartee and N M Martin.

Directors' and Senior Executives Emoluments

The remuneration committee was established on 22 June 1999 and will take responsibility for advising the board on remuneration policies and packages for board members and senior executives. Members of the remuneration committee are C J Rooke, W A Bartee and K Oboudiyat.

Remuneration of directors and senior executives is determined so as to ensure the package properly reflects the relevant person's duties and responsibilities and that the package is competitive to attract and retain services of high quality management. Remuneration packages include a base salary, superannuation, performance-related bonuses and other benefits.

Remuneration and other terms of employment for each board member are formalised in service agreements.

Details of the nature and amount of each element of the emoluments of each director of Protel International Limited and each of the 5 officers of the company and the consolidated entity receiving the highest emoluments are set out in the following tables:

Directors of Protel International Limited

Name	Base Salary $	Motor Vehicle $	Bonus $	Super $	Other Benefits $	Total $
Nicholas M Martin	202,000	53,829	-	14,085	-	269,914
Kayvan Oboudiyat	187,529	35,774	-	19,238	-	242,541
Aram Mirkazemi	164,800	53,767	-	11,498	7,288	237,353
David M Warren	110,000	48,654	-	3,486	-	162,140
Carl J Rooke	-	-	-	-	-	-
William A Bartee	-	-	-	-	-	-

Other Officers of Protel International Limited

Name	Base Salary $	Motor Vehicle $	Bonus $	Super $	Other Benefits $	Total $
Matthew Schwaiger	90,213	23,108	8,442	6,762	7,262	135,787
Stephen Passmore	37,115	-	63,900	7,033	-	108,048
Philip Loughhead	72,115	-	7,387	5,546	6,959	92,007
Shahram Mirkazemi	72,962	-	7,387	5,606	-	85,955
Marc Depret	67,115	-	6,859	5,161	3,037	82,172

Other Officers Consolidated

Name	Base Salary $	Motor Vehicle $	Bonus $	Super $	Other Benefits $	Total $
Bruce Edwards	289,149	-	-	2,169	-	291,318
Richard Wilson	118,260	-	91,664	2,004	-	211,928
Yukio Jono	109,035	-	51,850	-	-	160,885
Teruyuki Washizu	99,288	7,976	31,686	-	19,727	158,677
Oscar Boeshans	154,086	-	-	-	-	154,086

Directors' Report

Share Options Granted to Directors and Most Highly Remunerated Officers

Options over unissued ordinary shares of Protel International Limited granted during, or since the end of the financial year, to any of the directors or the 5 most highly remunerated officers of the company and consolidated entity as part of their remuneration were as follows:

Directors	Options Issued	Other Officers of Protel International Limited	Options Issued
Kayvan Oboudiyat	222,000	Matthew Schwaiger	222,000
Carl J Rooke	88,800	Marc Depret	222,000
		Stephen Passmore	22,200
		Philip Loughhead	177,600
		Shahram Mirkazemi	177,600

No options were issued during the period to any of the officers of the consolidated entity outlined above as being 5 of the most highly remunerated officers.

Shares Under Option

Unissued ordinary shares of Protel International Limited under option at the date of this report are as follows:

	Number	Issue Price of Shares	Expiry Date
Protel International Employee Share Option Scheme	6,227,100	$0.34	18/6/04
Macquarie ECM Options	1,465,000	$2.20	18/6/04

The options issued under the Protel International Employee Share Option Scheme and the Macquarie Equity Capital Markets Options are exercisable from 4th August 2000. No option holder has any right, under the options, to participate in any other share issue of the company or of any other entity. No shares have been issued during or since the end of the financial year on the exercise of options.

Significant Changes in the State of Affairs

On 16th September 1998, the parent entity acquired the business of MicroCode Engineering, Inc. of Utah USA, adding Sales and R&D staff to the operations of Protel Technology Inc. The acquisition included all assets of MicroCode, including intellectual property and plant and equipment. Further, in March 1999, Protel Technology Inc. relocated its US Sales and Support base in California to Provo in Utah. As a result, abnormal expenses of $352,276 were incurred.

On 18th June 1999 the parent entity was converted from a Proprietary company to a Public company.

Events Subsequent to Balance Date

On 4th August 1999, the company completed its initial public offering of securities when its shares were first listed on the Australian Stock Exchange ("ASX") under the symbol PRI. New shares issued raised $30,000,000 for the company to assist it's growth and acquisition program and to expand working capital.

Two convertible notes issued as consideration during technology acquisitions in September 1998 and April 1999, and listed as current liabilities in the financial statements were converted to Ordinary Shares in the the company and subsequently listed on the ASX.

Likely Developments and Expected Results of Operations

The consolidated entity intends to expand its product offerings through the acquisitions of additional technologies. Further information on likely developments and the expected results of operations of the consolidated entity have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Year 2000 Readiness

The consolidated entity has implemented a comprehensive program to ensure that it is Year 2000 ready. The program is to review year 2000 compliance of both internal systems and products and those of computer software programs licensed or acquired from third parties for incorporation into products or systems. The program also aims to ensure that suppliers are not unduly effected by Year 2000 issues. The program is due for completion by 30th September 1999. The company believes that this review and any modification, if necessary, will not result in any additional material expense.

Environment Regulation

The company has assessed whether there are any particular environmental regulations that apply to it and has determined that there are none of significance.

Insurance of Officers

During the year the company paid a premium of $13,494 to insure the directors and officers of Protel International Limited.

The liabilities insured are costs and expenses that may be incurred in defending any civil or criminal proceedings that may be brought against them in their capacity as directors or officers of the consolidated entity.

Auditor

PricewaterhouseCoopers continues in office as auditor in accordance with section 327 of the Corporations Law.

This report is made in accordance with a resolution of the directors.

For and on behalf of the board

NM Martin
Director

K Oboudiyat
Director

Sydney
30 August 1999

Corporate Governance Statement

A description of the company's main corporate governance practices is set out below. The practices have been in place throughout the entire year, unless otherwise stated.

Carl Rooke
Chairman

Nick Martin
Executive Director
and Founder

Board of Directors

Role and responsibilities of the board of directors

The role of the board is to increase shareholder value within a framework that protects the rights and enhances the interests of shareholders and ensures the company and its controlled entities are properly managed. The function of the board of directors includes responsibility for:

1. Reviewing and approving strategic direction and policy,
2. Monitoring financial performance including the approval of financial reports and liaison with the company's auditors
3. Appointment and rewarding of senior executives and monitoring of their performance
4. Ensuring that significant risks facing the company and its controlled entities have been identified and that appropriate control, monitoring and reporting mechanisms are in place.

Board composition

The board is comprised of executive and non-executive directors, including a non-executive chairman.

At the date of this report, the Board consisted of four executive directors and two non-executive directors. Further details on directors are set out in the directors' report under the heading "Information on Directors".

It is the board's intention to appoint an additional non-executive director once a suitable candidate has been identified.

The board has established a number of committees to assist in the execution of it's duties and to allow detailed consideration of complex issues. Current committees of the board are the remuneration and audit committees. These committees consist of one executive director and two independent directors.

The company's constitution specifies that all directors (with the exception of the Chief Executive Officer) must retire after three years of holding office. Where eligible, a director may stand for re-election subject to conditions laid out in the company's constitution.

Independent Professional Advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld. All directors will be made aware of the professional advice sought and attained.

Remuneration Committee

The remuneration committee consists of the following directors.
C J Rooke
W A Bartee
K Oboudiyat
The remuneration committee was established on 22 June 1999.

The remuneration committee has been established to advise the board on remuneration policies and practices generally and will be responsible for making specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Executive remuneration and other terms of employment are to be reviewed annually by the committee having regard to performance, relative comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, performance related bonuses and fringe benefits. Executives and non-executive directors are also eligible to participate in the Protel International Limited Employee Option Plan.

Corporate Governance Statement

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's global operations.

Remuneration and other terms of employment for the CEO and other executive directors are formalised in service agreements.

Remuneration of non-executive directors is determined by the board and formalised in service agreements.

The remuneration committee's terms of reference will also include responsibility for reviewing any transaction between the consolidated entity and the directors, to ensure the structure and the terms of the transaction are in compliance with the Corporations Law and are appropriately disclosed.

Further information on directors' and executives' remuneration is set out in the directors' report and note 4 to the financial statements.

The committee will also assume responsibility for management succession planning, including the implementation of appropriate executive development activities and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Audit Committee

The audit committee consists of the following directors:
C J Rooke
W A Bartee
N M Martin

The audit committee was established on 22 June 1999.

The main responsibilities of the audit committee are to:

- review and report to the board on the annual report, the annual and half-year financial reports and all other financial information published by the company or released to the market
- assist the board in reviewing the effectiveness of the organisation's internal control environment covering:
- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations, and
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, and the scope and quality of the audit.

In fulfiling its responsibilities, the audit committee will receive reports from management and external auditors.
The external auditors have a clear line of direct communication at any time to all members of the audit committee and the Chairman of the Board.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

Year 2000

Comments on the consolidated entity's position in relation to the year 2000 systems issue are included in the directors' report under the heading "Year 2000 Readiness".

Aram Mirkazemi
Executive Director

Kayvan Oboudiyat
CEO

David Warren
Executive Director

William Bartee
Non-Executive Director

Profit and Loss Statements

For the year ended 30 June 1999

Protel International Limited
and Controlled Entities

Schedule 1

	Note	Consolidated 12 months ended 30 June 1999 $	Consolidated 12 months ended 30 June 1998 $	Company 12 months ended 30 June 1999 $	Company 12 months ended 30 June 1998 $
Revenue from operating activities	2	21,293,770	13,737,044	14,656,108	9,751,845
Revenue from outside the operating activities	2	320,528	424,232	374,590	589,903
Total revenue		**21,614,298**	**14,161,276**	**15,030,698**	**10,341,748**
Operating profit before abnormal items and income tax		5,535,160	3,222,667	4,623,476	2,915,996
Abnormal items before income tax	3 (b)	(352,276)	-	-	-
Operating profit before income tax		**5,182,884**	**3,222,667**	**4,623,476**	**2,915,996**
Income tax attributable to operating profit	7	(1,372,258)	(914,898)	(1,509,018)	(879,845)
Operating profit after income tax		**3,810,626**	**2,307,769**	**3,114,458**	**2,036,151**
Retained profits at the beginning of the financial period		2,690,630	1,701,422	3,214,155	2,598,004
Transfer of foreign currency translation reserve	20	-	101,439	-	-
Total available for appropriation		6,501,256	4,110,630	6,328,613	4,634,155
Dividends provided for or paid	8	(1,658,623)	(1,420,000)	(1,658,623)	(1,420,000)
Retained profit at the end of the financial period		**4,842,633**	**2,690,630**	**4,669,990**	**3,214,155**

The above profit and loss statements should be read in conjunction with the accompanying notes.

Protel International Limited
and Controlled Entities

Balance Sheets

As at 30 June 1999

Schedule 2

		Consolidated		Company	
	Note	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Current Assets					
Cash		2,140,186	1,321,863	878,091	560,998
Receivables	9	3,292,309	2,528,735	3,289,447	2,838,337
Inventories	10	131,831	210,080	28,910	117,700
Other	14	531,449	6,440	495,542	-
Total Current Assets		**6,095,775**	**4,067,118**	**4,691,990**	**3,517,035**
Non-Current Assets					
Receivables	9	-	-	651,508	705,747
Plant and equipment	11	1,327,480	1,343,378	1,049,942	1,107,790
Intangibles	12	8,370,601	1,137,402	8,422,287	1,137,402
Investments	13	-	-	214,221	214,221
Other	14	524,056	190,412	334,736	133,538
Total Non-Current Assets		**10,222,137**	**2,671,192**	**10,672,694**	**3,298,698**
Total Assets		**16,317,912**	**6,738,310**	**15,364,684**	**6,815,733**
Current Liabilities					
Accounts payable	15	1,389,428	1,241,460	740,810	988,876
Borrowings	16	7,711,639	651,431	7,662,283	610,163
Provisions	17	986,415	1,338,245	927,771	1,225,687
Other	18	28,138	17,062	8,400	-
Total Current Liabilities		**10,115,620**	**3,248,198**	**9,339,264**	**2,824,726**
Non-Current Liabilites					
Borrowings	16	552,585	583,463	548,356	560,833
Provisions	17	707,074	116,019	707,074	116,019
Total Non-Current Liabilities		**1,259,659**	**699,482**	**1,255,430**	**676,852**
Total Liabilites		**11,375,279**	**3,947,680**	**10,594,694**	**3,501,578**
Net Assets		**4,942,633**	**2,790,630**	**4,769,990**	**3,314,155**
Shareholders' Equity					
Share capital	19	100,000	10,000	100,000	10,000
Reserves	20	-	90,000	-	90,000
Retained profits		4,842,633	2,690,630	4,669,990	3,214,155
Total Shareholders' Equity		**4,942,633**	**2,790,630**	**4,769,990**	**3,314,155**

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of Cash Flows

For the year ended 30 June 1999

Protel International Limited
and Controlled Entities

Schedule 3

	Note	Consolidated 12 months ended 30 June 1999 $	Consolidated 12 months ended 30 June 1998 $	Company 12 months ended 30 June 1999 $	Company 12 months ended 30 June 1998 $
Cash flows from operating activities					
Receipts from customers		20,417,004	12,485,391	14,079,500	8,524,181
Payments to trade creditors, other suppliers and employees		(15,960,598)	(9,058,721)	(10,312,330)	(5,670,585)
Interest received		31,833	28,141	90,175	27,395
Interest paid		(190,159)	(69,040)	(159,781)	(59,423)
Income taxes paid		(1,225,369)	(721,716)	(1,171,082)	(711,928)
Dividends received		-	-	-	7,875
Other income received		171,715	77,840	171,544	70,390
Net cash flows from operating activities	26	**3,244,426**	**2,741,895**	**2,698,026**	**2,187,905**
Cash flows from investing activities					
Payments for property, plant and equipment		(412,110)	(488,637)	(326,067)	(161,965)
Proceeds from sale of property, plant and equipment		284,559	37,000	284,079	37,000
Payment for investments		-	-	-	(214,057)
Advance of loans to related parties		-	-	(100,125)	(51,825)
Repayment of loans by related parties		-	175,940	-	425,105
Payments for technology acquisitions and licenses		(3,262,850)	-	(3,262,850)	-
Net cash flows from investing activities		**(3,390,401)**	**(275,697)**	**(3,404,963)**	**34,258**
Cash flows from financing activities					
Proceeds from borrowings		4,300,000	2,652	4,300,000	2,652
Repayment of borrowings		(696,580)	(670,117)	(696,580)	(670,117)
Repayment of lease liabilities		(580,499)	(216,653)	(520,767)	(208,817)
Dividends paid	8	(2,058,623)	(1,320,000)	(2,058,623)	(1,320,000)
Net cash flows from financing activities		**964,298**	**(2,204,118)**	**1,024,030**	**(2,196,282)**
Net increase in cash held		**818,323**	**262,080**	**317,093**	**25,881**
Cash at the beginning of the financial period		**1,321,863**	**1,059,783**	**560,998**	**535,117**
Cash at the end of the financial period		**2,140,186**	**1,321,863**	**878,091**	**560,998**

The above statements of cash flows should be read in conjunction with the accompanying notes.

Protel International Limited
and Controlled Entities

Notes to the Financial Statements

Schedule 4/1

1. Statement of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Boards, Urgent Issues Group Consensus Views and the Corporations Law.

The principal accounting policies adopted in preparing the financial statements of Protel International Limited are stated to assist in a general understanding of this financial report. These policies have been consistently applied except as otherwise indicated. Comparative information is reclassified where appropriate to enhance comparability.

(a) Basis of accounting

The financial statements have been prepared on the basis of historical costs and do not take into account current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for the assets.

Non-current assets are revalued from time to time as considered appropriate by the directors and are not stated at amounts in excess of their recoverable amounts. Except where stated, recoverable amounts are not determined using discounted cash flows.

(b) Principles of consolidation

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Protel International Limited as stated in note 13 as at 30 June 1999 and the results of all controlled entities for the year then ended. Protel International Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

(c) Income tax

Income tax has been brought to account using the liability method of tax effect accounting, whereby the income tax expense in the profit and loss statement is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

No provision is made for additional taxes which could become payable if certain reserves of the foreign operation were to be distributed as it is not expected that any substantial amount will be distributed from those reserves in the foreseeable future.

(d) Depreciation of plant and equipment and amortisation of leasehold improvements

Plant and equipment are depreciated and leasehold improvements are amortised over their estimated useful lives using the straight line or diminishing value method.

The expected useful lives of the assets are as follows:

Office equipment	3 - 5 years
Computer hardware and software	2 - 3 years
Motor Vehicles	4 - 5 years
Leasehold improvements	Lifetime of the lease

Profit or loss on disposal of plant and equipment are brought to account in determining the result for the year.

(e) Inventories

Finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials and direct labour. Costs have been assigned to inventory quantities on hand at balance date using the first in first out basis.

(f) Receivables and revenue recognition

Amounts disclosed as revenue are net of returns, trade allowances, duties and taxes paid. A sale is recorded when goods have been despatched to a customer pursuant to a sales order and the associated risks have passed to the carrier or customer.

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

Notes to the Financial Statements

Protel International Limited
and Controlled Entities

Schedule 4/2

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to collection exist.

(g) Employee entitlements

Liabilities for employee entitlements to wages, salaries and annual leave are recognised, and are measured as the amount unpaid at balance date at current pay rates in respect of employee services up to that date.

Liabilities for long service leave are recognised, and measured as the present values of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match as closely as possible, the estimated future cash flows.

Contributions to employee superannuation plans are charged as expense as the contributions are paid or become payable.

(h) Foreign currency

(i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date monetary amounts are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the financial year.

(ii) Foreign operations

As the foreign operations are integrated, their accounts have been translated using the temporal method, whereby monetary items are translated at the exchange rate current at balance date and non-monetary items are translated at exchange rates prevailing at the relevant transaction dates. Exchange differences arising on translation are brought to account in determining the profit or loss for the year.

(iii) Prior year change in accounting policy

The use of the temporal method for foreign currency translations of foreign operations represents a change in the accounting policy during the financial year ended 30 June 1998. In prior years the US foreign operation (Protel Technology Inc) was considered self-sustaining, whereby the current rate method was applied and exchange differences were taken to the foreign currency translation reserve.

The changed policy was adopted because of changes in the structure of the operations. As a result, the foreign currency translation reserve of $101,439 was transferred to retained earnings during the financial year ended 30 June 1998.

(i) Unearned income

Amounts invoiced and/or recorded which relate to services yet to be performed are carried forward and brought to accounts as income in the period in which the service is performed.

(j) Leased assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessees substantially all the risks and benefits incidental to ownership of leased non-current assets (finance leases) and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset. Lease assets held at balance date are being amortised over periods ranging from 2 to 5 years.

Operating lease payments are charged to the profit and

Protel International Limited
and Controlled Entities

Notes to the Financial Statements

Schedule 4/3

loss statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(k) Cash

For the purpose of the statement of cash flows, cash includes cash on hand, deposits held at call with the banks and investments in money market instruments, net of bank overdrafts.

(l) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(m) Borrowings

Loans are carried at their face value. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

Convertible notes and redeemable preference shares which are redeemable at the option of the holder, are included in liabilities at face value as they are, in substance, borrowings. Dividends payable on the redeemable preference shares are recognised in the profit and loss statement as interest on an accruals basis.

(n) Intangible assets and expenditure carried forward

Acquisition costs of software licenses and copyrights are amortised on a straight line basis over the period for which the right is acquired, which varies from 3 to 10 years.

(o) Research and Development Expenditure

Research and development costs are charged to operating profit before income tax as incurred, or deferred where these costs are associated with integration of acquired technology and it is determined that the technology has reached technological feasibility. Costs are deferred to future periods to the extent that they are expected beyond any reasonable doubt to be recoverable.

(p) Acquisition of assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition. Where shares are issued in an acquisition, the value of the shares is determined by reference to the fair value of the assets acquired, including goodwill where applicable.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions.

A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to a restructuring of the acquired entity and a reliable estimate of the amount of the liability can be made.

(q) Year 2000 software modification costs

Costs relating to the modification of computer software for year 2000 compatibility are charged as expenses as incurred.

(r) Earnings per share

(i) Basic Earnings per Share
Basic earnings per share is determined by dividing the operating profit after income tax by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted Earnings per Share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account adjustments that will probably arise from the exercise of options outstanding during the financial year.

Notes to the Financial Statements

Protel International Limited
and Controlled Entities

Schedule 4/4

2. Revenue

	Consolidated		Company	
	12 months ended 30 June 1999 $	12 months ended 30 June 1998 $	12 months ended 30 June 1999 $	12 months ended 30 June 1998 $
Revenue from Operating Activities:				
Sale of goods and services	21,293,770	13,737,044	14,656,108	9,751,845
Revenue from Outside the Operating Activities:				
Interest revenue	31,833	28,141	90,175	27,395
Proceeds from disposal of plant and equipment	284,559	37,000	284,079	37,000
Dividends	-	-	-	7,875
Net gain on foreign currency transactions	-	125,875	-	294,199
Royalties received	-	13,301	-	13,301
Subsidies and rebates	-	202,250	-	202,250
Other income	4,136	17,665	336	7,883
	320,520	424,232	374,590	589,903
Total Revenue	21,614,298	14,161,276	15,030,698	10,341,748

3. Operating profit

(a) Operating profit before income tax is arrived at after crediting and charging the following specific items:				
Credits:				
Net gain on disposal of plant and equipment	33,467	12,653	33,717	11,520
Net gain on foreign currency transactions	-	125,875	-	294,199
Dividends received from subsidiaries	-	-	-	7,875
Interest revenue	31,833	28,141	90,175	27,395

Protel International Limited
and Controlled Entities

Notes to the Financial Statements

Schedule 4/5

	Consolidated 12 months ended 30 June 1999 $	Consolidated 12 months ended 30 June 1998 $	Company 12 months ended 30 June 1999 $	Company 12 months ended 30 June 1998 $
Charges:				
Borrowings costs				
Interest paid/payable:	80,565	69,040	79,921	59,423
Dividends on preference shares	23,377	-	23,377	-
Finance charges relating to finance leases	86,217	27,617	56,483	27,617
	190,159	96,657	159,781	87,040
Net loss on foreign currency transactions	15,922	-	1,400	-
Depreciation				
Plant and equipment	208,346	154,461	144,092	75,390
Amortisation				
Plant and equipment under finance leases	250,848	159,347	222,321	159,347
Training program	-	10,642	-	10,642
Technology acquisitions	248,516	166,560	248,516	166,560
Technology licenses	253,612	201,855	253,612	201,855
Total amortisation	752,976	538,404	724,449	538,404
Provision for Bad and doubtful debts	130,711	138,482	50,420	30,825
Employee entitlements	164,867	67,922	154,006	29,365
Write down of inventories to net realisable value	134,580	-	134,580	-
Rental expense relating to operating leases	698,725	365,513	348,117	190,537
Research and development	1,886,281	1,525,039	1,889,167	1,526,420
(b) Operating profit before income tax includes the following abnormal item:				
Expenses				
Costs incurred on closure of California sales and support office and its relocation to Utah.	352,276	-	-	-
Less: Applicable income tax credit	(130,342)	-	-	-
Abnormal item after income tax	221,934	-	-	-

Notes to the Financial Statements

Protel International Limited
and Controlled Entities

Schedule 4/6

4. Directors' Remuneration

	Consolidated		Company	
	12 months ended 30 June 1999 $	12 months ended 30 June 1998 $	12 months ended 30 June 1999 $	12 months ended 30 June 1998 $
Income paid or payable to directors of the company by the company and related entities	1,651,716	1,277,289	911,948	718,128

Details of options granted to directors during the twelve month period ended 30th June 1999 are set out in note 23.
The number of company directors whose total income from the company or related parties was within the specified bands are as follows:

	1999	1998
Income of $0 to $9,999	2	1
Income of $100,000 to $109,999	-	1
Income of $150,000 to $159,999	-	2
Income of $160,000 to $169,999	1	-
Income of $230,000 to $239,999	1	-
Income of $240,000 to $249,999	1	-
Income of $260,000 to $269,999	1	-
Income of $300,000 to $309,999	-	1

5. Executives' Remuneration

Remuneration received, or due and receivable, from entities in the consolidated entity by Australian based executive officers (including directors) whose remuneration was at least $100,000:

	Consolidated Entity 1999	Company 1999
Executive officers of the company	1,155,784	1,155,784
Executive officers of other entities in the consolidated entity	287,564	-
	1,443,348	1,155,784

The number of Australian based executive officers (including directors) whose remuneration from entities in the consolidated entity was within the specified bands are as follows:

	Consolidated Entity 1999	Company 1999
Income of $100,000 to $109,999	1	1
Income of $120,000 to $129,999	1	-
Income of $130,000 to $139,999	1	1
Income of $150,000 to $159,999	1	-
Income of $160,000 to $169,999	1	1
Income of $230,000 to $239,999	1	1
Income of $240,000 to $249,999	1	1
Income of $260,000 to $269,999	1	1

Options are granted to executives under the Protel International Employee Option Share Option Scheme, details of which are set out in note 21. A summary of the number of options granted to and held by Australian based executive officers (with income of at least $100,000) during the year ended 30 June 1999 is set out below:

	Opening Balance	Granted during the Year	Outstanding at Year end
Australian based executives officers of the company	1,647,240	555,000	2,202,240
Australian based executive officers of other entities in the consolidated entity	444,000	133,200	577,200
	2,091,240	688,200	2,779,440

Protel International Limited
and Controlled Entities

Notes to the Financial Statements

Schedule 4/7

6. Remuneration of Auditors

	Consolidated		Company	
	12 months ended 30 June 1999 $	12 months ended 30 June 1998 $	12 months ended 30 June 1999 $	12 months ended 30 June 1998 $
Amounts received, or due and receivable, by the auditors for:				
Audit	80,000	40,500	43,500	30,500
Other services	304,292	9,000	293,060	-
	384,292	49,500	336,560	30,500

7. Income tax

	Consolidated		Company	
	12 months ended 30 June 1999	12 months ended 30 June 1998 $	12 months ended 30 June 1999 $	12 months ended 30 June 1998 $
(a) Income tax on the operating profit differs from the prima facie income tax payable on the profit as follows:				
Operating profit before income tax	5,128,884	3,222,667	4,623,476	2,915,996
Income tax calculated @ 36%	1,846,398	1,160,160	1,664,451	1,049,759
Tax effect of permanent differences:				
Research and development claim	(258,943)	(209,196)	(258,943)	(209,196)
Legal expenses	-	21,577	-	21,577
Other	(36,823)	42,026	(6,324)	(23,525)
Income tax adjusted for permanent differences	1,550,632	1,014,567	1,399,184	838,615
Under/(over) provision in prior year	97,402	41,230	109,834	41,230
Recognition of unbooked tax	(264,678)	(140,899)	-	-
Effect of different rates of tax on overseas income	(11,098)	-	-	-
Income tax attributable to operating profit	1,372,258	914,898	1,509,018	879,845
Comprising:				
Current taxation provision	1,093,373	970,967	1,120,483	935,914
Deferred income tax provision	504,656	17,634	504,086	17,634
Future income tax benefit	(323,173)	(114,933)	(225,385)	(114,933)
Under/(over) provision in prior year	97,402	41,230	109,834	41,230
	1,372,258	914,898	1,509,018	879,845

(b) The consolidated future income tax benefit shown on Note 14 includes $244,446 (1998: Nil) attributable to tax losses.

Notes to the Financial Statements

Protel International Limited
and Controlled Entities

Schedule 4/8

8. Dividends

	Company 12 months ended 30 June 1999 $	Company 12 months ended 30 June 1998 $
Ordinary shares		
Interim dividend paid		
Fully franked @ 36%	1,200,000	620,000
Franked to 86.25% @ 36%	-	400,000
Final dividend paid or proposed		
Fully franked @ 36%	458,623	400,000
Dividends provided for or paid	1,658,623	1,420,000
Franking credits available for the subsequent financial period	1,157,076	818,701

The above amount represents the balance of the franking account as at the end of the financial period, adjusted for:
(a) franking credits that will arise from the payment of income tax payable as at the end of the period
(b) franking debits that will arise from the payment of dividends proposed as at the end of the period; and
(c) franking credits that may be prevented from being distributed in the subsequent year

9. Receivables

	Consolidated		Company	
	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Current				
Trade debtors	3,277,193	2,571,636	3,039,826	2,542,791
Less: Provision for doubtful debts	(112,475)	(151,685)	(10,847)	(40,000)
	3,164,718	2,419,951	3,028,979	2,502,791
Loan to subsidiaries	-	-	248,937	163,747
Employee advances	7,317	9,067	6,915	4,037
Other debtors	120,274	99,717	4,616	167,762
	3,292,309	2,528,735	3,289,447	2,838,337
Non Current				
Loan to subsidiaries	-	-	651,508	705,747

10. Inventories

	Consolidated		Company	
	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Current				
Raw materials at cost	62,675	117,700	28,131	117,700
Finished goods at cost	69,156	92,380	779	-
	131,831	210,080	28,910	117,700

Protel International Limited
and Controlled Entities

Notes to the Financial Statements

Schedule 4/9

11. Plant and equipment

	Consolidated		Company	
	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Plant and equipment – at cost	1,378,264	1,099,031	728,891	527,698
Leasehold improvements – at cost	203,280	39,893	194,377	37,583
Less: accumulated depreciation	(828,269)	(589,264)	(371,876)	(202,536)
	753,275	549,660	551,392	362,745
Plant and equipment on lease	952,647	1,015,118	854,830	966,445
Less: accumulated amortisation	(378,442)	(221,400)	(356,280)	(221,400)
	574,205	793,718	498,550	745,045
Total plant and equipment	1,327,480	1,343,378	1,049,942	1,107,790

12. Intangibles

	Consolidated		Company	
	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Non-current				
Technology acquired	5,042,233	1,332,479	5,093,919	1,332,479
Less: accumulated amortisation	(635,482)	(386,966)	(635,482)	(386,966)
Technology licenses	4,596,345	633,750	4,596,345	633,750
Less: accumulated amortisation	(632,495)	(441,861)	(632,495)	(441,861)
	8,370,601	1,137,402	8,422,287	1,137,402

13. Investments

Shares in subsidiaries	-	-	214,221	214,221
(a) Investment in controlled entities comprises:				
Protel Technology, Inc	-	-	64	64
Protel Japan KK	-	-	114,287	114,287
Protel Europe AG	-	-	99,870	99,870

(b) Place of incorporation

Protel Technology Inc. – USA

Protel Japan KK – Japan

Protel Europe AG – Switzerland

All controlled entities are 100% owned by the company.
Operations commenced in Protel Japan KK on 1 October 1997 and in Protel Europe AG on 1 February 1998.

Notes to the Financial Statements

Protel International Limited
and Controlled Entities

Schedule 4/10

14. Other assets

	Consolidated 30 June 1999 $	Consolidated 30 June 1998 $	Company 30 June 1999 $	Company 30 June 1998 $
Current				
Deferred costs for capital raising	482,048	-	482,048	-
Prepayments	49,401	6,440	13,494	-
	531,449	6,440	495,542	-
Non-Current				
Long term notes & deposits	-	9,514	-	-
Security deposits	60,427	47,360	-	-
Future income tax benefit	463,629	133,538	334,736	133,538
	524,056	190,412	334,736	133,538

Transaction costs directly incurred on the company's initial public offering ("IPO") of securities have been deferred in other current assets. On completion of the IPO, these deferred costs will be netted off against proceeds of the IPO.

The consolidated future income tax benefit includes $244,446 (1998: $Nil) attributable to tax losses.

15. Accounts payable

	Consolidated 30 June 1999 $	Consolidated 30 June 1998 $	Company 30 June 1999 $	Company 30 June 1998 $
Current (unsecured)				
Trade creditors and accruals	1,323,237	1,231,460	739,389	978,876
Other payables	66,191	10,000	1,421	10,000
	1,389,428	1,241,460	740,810	988,876

16. Borrowings

Current				
Lease liabilities (note 25)	215,784	279,852	166,428	238,584
Commercial bills	-	100,000	-	100,000
Deferred consideration	2,506,660	271,579	2,506,660	271,579
Preference shares	4,000,000	-	4,000,000	-
Convertible notes	989,195	-	989,195	-
	7,711,639	651,431	7,662,283	610,163
Non-Current				
Lease liabilities (note 25)	324,309	558,463	320,080	535,833
Commercial bills	-	25,000	-	25,000
Deferred consideration	228,276	-	228,276	-
	552,585	583,463	548,356	560,833

Schedule 4/11

Redeemable Preference Shares

On 29 March 1999, the company issued preference shares to a number of investors at a total value of $4,000,000. The liability for preference shares converted to ordinary share capital in Protel International Limited on allotment of shares during the company's Initial Public Offering. Preference shareholders were entitled to receive all non-cumulative dividends declared or payable on the preference shares at the same rate as that declared or payable in respect of ordinary shares.

If the preference shares had not been converted to ordinary shares during the company's Initial Public Offering, the liability for preference shares would have been redeemable on or before 30 June 2003 at face value, with interest payable at 30% to 35% per annum. The preference shares were converted to ordinary shares on 30 July 1999.

Convertible Notes

On 16 September 1998 the company issued, as part consideration for a technology acquisition, an unsecured US$300,000 convertible note. This convertible note was converted to ordinary shares in Protel International Limited at a cost of $0.70 per share on 4 August 1999. If the option had not been exercised within 30 days of completion of the Initial Public Offering, the company would have been able elect to repay the face value of the convertible note with interest at 8.5% per annum.

On 4 August 1999, the company received a conversion notice from the holder of the convertible note above. It allotted shares under a resolution of the board of directors and subsequently sought application from the ASX to list these shares as part of its ordinary shares on issue.

On 16 April 1999, the company issued a second unsecured convertible note for US$350,000 as part consideration for another technology acquisition. This convertible note was converted to ordinary shares in Protel International Limited at a cost of $1.50 per share on 9 August 1999. If the option had not been exercised within 30 days of the completion of the Initial Public Offering, the company would have been able to elect to repay the face value of the convertible note with interest at 7% per annum.

On 9 August 1999, the company received a conversion notice from the holder of the second convertible note. It allotted shares under a resolution of the board of directors and subsequently sought application from the ASX to list these shares as part of its ordinary shares on issue.

Deferred Consideration

Deferred consideration outstanding at 30 June 1999 on technology acquisitions and licenses are unsecured. At 30 June 1998, $154,550 of the deferred consideration outstanding on one technology acquisition was secured by a mortgage over the present and future property of Protel Technology, Inc.

Deferred consideration on technology acquisitions and licenses matures at various dates up to 16 September 2001. Interest is payable on deferred consideration between 0% and 8.5% per annum (1998: 0% and 8% per annum).

Commercial bills

The commercial bills outstanding as at 30 June 1998 was secured by the following:
(a) Registered mortgage debenture over the assets and undertakings of Protel International Limited.
(b) Unlimited director's guarantee from Nicholas Martin, Aram Mirkazemi and David Warren.

17. Provisions

	Consolidated		Company	
	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Current				
Employee entitlements	364,324	219,379	277,247	140,541
Provision for taxation	622,091	718,866	650,524	685,146
Provision for dividend	-	400,000	-	400,000
	986,415	1,338,245	927,771	1,225,687
Non-Current				
Employee entitlements	55,850	38,550	55,850	38,550
Deferred income tax	651,224	77,469	651,224	77,469
	707,074	116,019	707,074	116,019

Notes to the Financial Statements

Protel International Limited
and Controlled Entities

Schedule 4/12

18. Other Liabilities

Current				
Unearned income	28,138	17,062	8,400	-

19. Share capital

	Consolidated 30 June 1999 Number of Shares	Company 30 June 1998 Number of Shares	Consolidated 30 June 1999 $	Company 30 June 1998 $
(a) Paid up capital Fully paid Ordinary shares	44,400,000	1,000,000	100,000	10,000

(b) Movements in the issued and paid up ordinary share capital of the company during the past 24 months were as follows:

Date	Details	Number of shares	$
1 July 1997	Opening balance	1,000,000	10,000
30 June 1998	Closing balance	1,000,000	10,000
1 July 1998	Transfer from share premium account	-	90,000
22 June 1999	Share split of existing shares at 44.4 : 1	43,400,000	-
30 June 1999	Closing balance	44,400,000	100,000

In accordance with section 1446 of the Corporations Law, the amounts standing to the credit of the share premium account on 1 July 1998 became part of share capital. This was a consequence of the abolition of par values of shares which took effect on 1 July 1998. As all of the share premium account related to ordinary shares, the balance has been allocated to ordinary share capital.

On 22nd June 1999, the company issued 1,465,000 options over ordinary shares to Macquarie Equity Capital Markets as part consideration for services provided under the Underwriting subscription agreement for the company's IPO. Each option is convertible into one ordinary share. Conversion can occur no earlier than the first anniversary of the listing of the company's shares on the ASX, and no later than 18th June 2004. The exercise price per option is $2.20.

For details of options on issue under Protel International Limited Employee Share Option Scheme refer to note 21.

Notes to the Financial Statements

Schedule 4/13

20. Reserves

	Consolidated		Company	
	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Composition:				
Share premium account	-	90,000	-	90,000
Movements during the period				
Share premium account				
Balance 1 July 1998	-	90,000	-	90,000
Transfer to share capital	-	90,000	-	90,000
Balance 30 June 1999	-	90,000	-	90,000
Foreign currency translation reserve opening balance	-	101,439	-	-
Transfer to retained earnings	-	(101,439)	-	-
Closing balance	-	-	-	-

21. Employee Entitlements

	Consolidated		Company	
	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Employee Entitlement Liabilites				
Accrued salaries and wages	387,112	347,984	276,133	112,568
Provision for employee entitlements				
Current (note 17)	364,324	219,379	277,247	140,541
Non-current (note 17)	55,850	38,550	55,850	38,550
Aggregate employee entitlement liability	807,286	605,913	609,230	291,659

Protel International Employee Share Option Scheme

The board of directors approved the establishment of the Protel International Employee Share Option Scheme in July 1997. All employees (including executive directors) of Protel International Limited and its subsidiaries are eligible to participate in the scheme. Invitations for employees to participate are determined at the discretion of the directors of the company.

A total of 6,227,100 (1998: 3,290,040) options have been granted under the scheme to eligible employees as at 30 June 1999. Each option is convertible into one ordinary share. Conversion can occur no earlier than the first anniversary of the listing of the company's shares on the Australian Stock Exchange. The last exercise date for options issued prior to Protel's listing is 18th June 2004. The option price payable upon conversion is fixed at $0.34.

Notes to the Financial Statements

Protel International Limited
and Controlled Entities

Schedule 4/14

22. Segment information

Geographic segments

1999 (12 months to 30 June)	Australia	North America	Europe	Japan	Other	Inter-segment eliminations	Consolidated
Sales to customers outside the economic entity	1,993,626	8,914,973	4,244,086	3,487,116	2,653,969	-	21,293,770
Intersegment sales	-	5,489,011	2,474,476	1,971,149	-	(9,934,636)	-
Other income	374,591	1,246	3,818	135	-	(59,262)	320,528
Total revenue	2,368,217	14,405,230	6,722,380	5,458,400	2,653,969	(9,993,898)	21,614,298
Segment result	1,154,197	5,666,088	2,561,215	1,670,221	2,653,969	-	13,705,690
Unallocated expenses							(8,522,806)
Operating profit before tax							5,182,884
Segment assets	15,364,684	2,386,317	1,004,618	931,855	-	(3,369,562)	16,317,912

1998 (12 months to 30 June)	Australia	North America	Europe	Japan	Other	Inter-segment eliminations	Consolidated
Sales to customers outside the economic entity	1,485,873	5,850,127	3,382,703	2,081,027	937,314	-	13,737,044
Intersegment sales	-	2,971,808	638,860	1,363,908	-	(4,974,576)	-
Other income	417,635	2,108	1,982	2,507	-	-	424,232
Total revenue	1,903,508	8,824,043	4,023,545	3,447,442	937,314	(4,974,576)	14,161,276
Segment result	1,387,557	3,492,915	2,652,141	1,633,517	937,314	-	10,103,444
Unallocated expenses							(6,880,777)
Operating profit before tax							3,222,667
Segment assets	6,815,733	1,465,268	656,630	804,574	-	(3,003,895)	6,738,310

(a) The consolidated entity operated within only one industry segment (manufacturer and distributor of computer software) during the reporting period.

(b) The pricing of intersegment transactions are based on a notional mark-up on cost, similar to transactions with parties outside the consolidated entity.

Schedule 4/15

23. Related party information

Directors

The names of persons who were directors of Protel International Limited at any time during the financial period ended 30 June 1999 are as follows:

Mr NM Martin
Mr DM Warren
Mr A Mirkazemi
Mr K Oboudiyat
Mr CJ Rooke
Mr WA Bartee

All of these persons were also directors during the year ended 30 June 1998, except for Mr WA Bartee who was appointed on 10th May 1999.

Information on remuneration of directors is disclosed in Note 4 to the financial report.

Transactions of directors and director-related entities concerning shares or share options

	Company 12 months ended 30 June 1999 number	Company 12 months ended 30 June 1998 number
Aggregate number of shares and share options acquired by directors of Protel International Limited or their director-related entities:		
Protel International Employee Share Options convertible to ordinary shares		
Mr K Oboudiyat	222,000	888,000
Mr CJ Rooke	88,800	88,800
	310,800	976,800

	Company 30 June 1999 number	Company 30 June 1998 number
Aggregate numbers of shares and share options held directly, indirectly or beneficially by directors of Protel International Limited or their director-related entities at balance date:		
Ordinary shares:		
Mr NM Martin	28,194,000	28,194,000
Mr DM Warren	8,103,000	8,103,000
Mr A Mirkazemi	8,103,000	8,103,000
	44,400,000	44,400,000
Options over ordinary shares:		
Mr K Oboudiyat	1,110,000	888,000
Mr CJ Rooke	177,600	88,800
	1,287,600	976,800

The options were issued as part of the Protel International Employee Share Option Scheme. They may be exercised no earlier than twelve months after the first date of listing of the company's shares on the Australian Stock Exchange. These options will be exercisable at an exercise price of $0.34.

Notes to the Financial Statements

Protel International Limited
and Controlled Entities

Schedule 4/16

Amounts receivable from and payable to directors and director-related entities

	Consolidated		Company	
	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Aggregate amounts receivable at balance date:				
Current	1,800	547	1,800	547
Aggregate amounts payable at balance date:				
Current	-	47,624	-	47,624

A director, Mr CJ Rooke, is a partner in Horwath Tas Pty Limited. Horwath Tas has provided accounting services to Protel International Limited for several years on normal commercial terms and conditions.

Wholly - Owned Group

The wholly-owned group consists of Protel International Limited and its wholly-owned controlled entities, Protel Technology Inc., Protel Japan KK and Protel Europe AG. Ownership interests in these controlled entities are set out in note 13.

Transactions between Protel International Limited and other entities in the wholly-owned group during the year ended 30 June 1999 and 1998 consisted of:

(a) Supply of computer software for sale by Protel International Limited;;
(b) Loans advanced by Protel International Limited;
(c) Loans repaid to Protel International Limited;
(d) Purchase of research and development services by Protel International Limited; and
(e) Receipt of dividends by Protel International Limited

These transactions have been undertaken under normal commercial terms and conditions.

	Company	
	30 June 1999 $	30 June 1998 $
Aggregate amounts included in the determination of operating profit before income tax that resulted from transactions with entities in the wholly-owned group:		
Interest Revenue	59,262	-
Aggregate amounts receivable from entities in the wholly-owned group at balance date:		
Current receivables	2,067,839	1,967,483
Current loans	248,937	163,747
Non-Current loans	651,508	705,747

24. Financial instruments

(a) Credit risk exposures

The credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

(b) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

Protel International Limited
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Notes to the Financial Statements

Schedule 4/17

	Notes	Floating Interest Rate $	Fixed interest rate maturities 1 year or less $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
30 June 1999 Consolidated Financial Assets							
Cash		1,140,552	-	-	-	999,634	2,140,186
Receivables	9	-	-	-	-	3,292,309	3,292,309
		1,140,552	0	0	0	4,291,943	5,432,495
Weighted average interest rate		3.47%					
Financial Liabilities							
Accounts payable	15	-	-	-	-	(1,389,428)	(1,389,428)
Deferred consideration	16	-	(182,621)	(228,276)	-	(2,324,039)	(2,734,936)
Convertible notes	16	-	-	-	-	(989,195)	(989,195)
Preference shares	16	-	(4,000,000)	-	-	-	(4,000,000)
Financial lease liabilities	16	-	(215,784)	(324,309)		-	(540,093)
		0	(4,398,405)	(552,585)	0	(4,702,662)	(9,653,652)
Weighted average interest rate			2.73%	8.30%			
Net financial assets (liabilities)		1,140,552	(4,398,405)	(552,585)	0	(410,719)	(4,221,157)

	Notes	Floating Interest Rate $	Fixed Interest Rate Maturities 1 year or less $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
30 June 1998 Consolidated Financial Assets							
Cash		551,484	-	-	-	770,379	1,321,863
Receivables	9	-	-	-	-	2,528,735	2,528,735
		551,484	-	-	-	3,299,114	3,850,598
Weighted average interest rate		5.00%					
Financial Liabilities							
Commercial bills	16	(125,000)	-	-	-	-	(125,000)
Accounts payable	15	-	-	-	-	(1,241,460)	(1,241,460)
Deferred consideration	16	-	(154,550)	-	-	(117,029)	(271,579)
Financial lease liabilities	16	-	(279,852)	(558,463)	-	-	(838,315)
		(125,000)	(434,402)	(558,463)	-	(1,358,489)	(2,476,354)
Weighted average interest rate		6.17%	7.89%	7.74%			
Net financial assets (liabilities)		426,484	(434,402)	(558,463)	-	1,940,625	1,374,244

Notes to the Financial Statements

Protel International Limited
and Controlled Entities

Schedule 4/18

	Notes	30 June 1999	30 June 1998
Reconciliation of net financial assets to net assets			
Net financial assets (liabilities) as above		(4,221,157)	1,374,244
Non-financial assets and liabilities			
Inventories	10	131,831	210,080
Plant and equipment	11	1,327,480	1,343,378
Intangibles	12	8,370,601	1,137,402
Other assets	14	1,055,505	196,852
Provisions	17	(1,693,489)	(1,454,264)
Other liabilities	18	(28,138)	(17,062)
Net assets per balance sheet		4,942,633	2,790,630

Net fair value of financial assets and liabilities

The net fair value of financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. At balance date, the net fair value of financial assets and liabilities approximates their carrying value.

25. Commitments for expenditure

	Consolidated		Company	
	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Lease commitments				
Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:				
Not later than one year	477,653	356,116	316,479	164,695
Later than one year but not later than 2 years	402,975	307,751	303,944	136,982
Later than 2 years but not later than 5 years	455,210	532,699	200,796	227,267
Later than 5 years	-	25,950	-	25,950
	1,335,838	1,222,516	821,219	554,894
Representing:				
Cancellable operating leases	-	-	-	-
Non-cancellable operating leases	1,335,838	1,222,516	821,219	554,894
	1,335,838	1,222,516	821,219	554,894
Commitments in relation to finance leases are payable as follows:				
Not later than one year	251,587	333,789	198,236	292,521
Later than one year but not later than 2 years	156,120	224,842	151,792	202,212
Later than 2 years but not later than 5 years	200,789	394,084	200,789	394,084
Later than 5 years	-	-	-	-

Protel International Limited
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Notes to the Financial Statements

Schedule 4/19

	Consolidated		Company	
	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Minimum lease payments	608,496	952,715	550,817	888,817
Less: Future finance charges	(68,403)	(114,400)	(64,309)	(114,400)
Provided for in accounts	540,093	838,315	486,508	774,417
Representing lease liabilities:				
Current (note 16)	215,784	279,852	166,428	238,584
Non-current (note 16)	324,309	558,463	320,080	535,833
	540,093	838,315	486,508	774,417

26. Cash flow information

	Consolidated		Company	
	12 months ended 30 June 1999 $	12 months ended 30 June 1998 $	12 months ended 30 June 1999 $	12 months ended 30 June 1998 $
Reconciliation of net cash flows from operating activities to operating profit after income tax				
Operating profit after income tax	3,810,626	2,307,769	3,114,458	2,036,151
Depreciation & amortisation	961,322	692,864	868,541	613,793
Net loss (profit) on disposal of assets	(33,467)	(12,653)	(33,717)	(11,520)
Unrealised foreign exchange differences	-	79,120	69,172	(74,937)
(Increase)/ decrease in trade and other debtors	(574,340)	(1,109,648)	(354,644)	(1,227,663)
(Increase)/decrease in inventories	78,249	(114,862)	88,790	(55,891)
(Increase) in prepayments & other assets	(694,319)	(203,528)	(498,420)	(22,008)
(Increase) in technology acquisitions and licenses	(748,344)	-	(800,030)	-
(Increase) in future income tax benefit	(330,091)	(133,538)	(201,198)	(133,538)
Increase/(decrease) in trade and other creditors and employee entitlements	297,810	909,651	(94,059)	762,063
Increase in deferred income tax	573,755	77,469	573,755	77,469
Increase/(decrease) in income tax payable	(96,775)	249,251	(34,622)	223,986
Net cash inflows from operating activities	**3,244,426**	**2,741,895**	**2,698,026**	**2,187,905**

27. Non-cash financing and investing activities

Acquisition of plant and equipment by means of finance leases	282,277	721,878	232,859	673,205

Notes to the Financial Statements

Protel International Limited
and Controlled Entities

Schedule 4/20

28. Foreign currency

The amounts listed below represent assets and liabilities converted to $A that are receivable or payable in foreign currencies.
These amounts have not been hedged.

	Consolidated		Company	
	30 June 1999 $	30 June 1998 $	30 June 1999 $	30 June 1998 $
Receivable				
Current				
US Dollar	1,732,827	1,792,977	1,933,629	1,630,330
Japanese Yen	530,077	663,695	661,773	486,743
Belgian Francs	1,413	-	-	-
Euro Dollars	347,689	-	-	-
French Francs	9,945	-	-	-
German DM	17,877	427,931	-	-
British Pounds	251,709	144,846	251,709	144,846
Swiss Francs	159,277	214,903	211,107	430,204
Non current				
Swiss Francs	9,229	-	-	-
US Dollar	-	9,514	651,508	705,747
Japanese Yen	51,199	47,360	-	-
Payable				
Current				
Austrian Schiling	47	-	-	-
US Dollar	3,971,515	924,196	3,557,236	703,303
Japanese Yen	118,586	165,725	-	78,877
German DM	34,881	11,627	-	9,452
French Francs	11,000	-	11,000	-
Italian Lira	2,549	-	2,549	-
British Pounds	4,426	5,210	4,426	5,210
Swiss Francs	121,761	103,638	2,441	6,580
Non current				
US Dollar	232,504	22,630	228,276	-

Schedule 4/21

29. Subsequent events

On 1st July 1999 the company's prospectus to issue ordinary shares to the public was approved by the Australian Securities and Investment Commission. The company undertook a public offer of shares from 5th July through to 23rd July under this prospectus. In late July the company received permission to list its shares on the Australian Stock Exchange (ASX). On 4th August, shares in Protel International Limited were first quoted on the ASX under the ticker symbol PRI. New shares issued raised $30,000,000 for the company to assist its growth and acquisition program and to expand working capital.

Two convertible notes issued as consideration during technology acquisitions in September 1998 and April 1999, and listed as current liabilities in the financial statements were converted to ordinary shares in the company and subsequently listed on the ASX.

30. Earnings per Share

		Consolidated 12 months ended 30 June 1999 $	Consolidated 12 months ended 30 June 1998 $
Basic earnings per share	cents	8.6	5.2
Diluted earnings per share	cents	7.8	5.0
Weighted average number of ordinary shares used in the calculation of basic earnings per share		44,400,000	44,400,000

Information concerning the classification of securities

Options

Options granted to employees under the Protel International Employee Share Option Scheme and to Macquarie Equity Capital Markets under the Underwriting agreement are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in notes 19 and 21.

Convertible Notes

Convertible notes issued during the year are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The note has not been included in the determination of basic earnings per share. Details relating to the convertible note are set out in note 16.

Preference Shares

Preference shares issued during the year are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The preference shares have not been included in the determination of basic earnings per share. Details relating to the preference shares are set out in note 16.

Schedule 5

Directors' Declaration

The directors declare that the financial statements and notes thereon set out on schedules 1 to 4:

(a) comply with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements; and

(b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 1999 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Law; and

(b) 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 directors.

For and on behalf of the board

NM Martin

Director

K Oboudiyat

Director

Sydney

30 August 1999

PRICEWATERHOUSECOOPERS

Independent Audit Report to the Members of Protel International Limited

Scope

We have audited the financial report of Protel International Limited (the Company) for the financial year ended 30 June 1999 as set out on schedules 1 to 5. The Company's directors are responsible for the financial report which includes the financial statements of the Company and the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of, or during, the financial year. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Law so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of the Company is in accordance with:

(a) the Corporations Law, including:
(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 1999 and of their performance for the financial year ended on that date; and
(ii) complying with Accounting Standards and the Corporations Regulations; and

(b) other mandatory professional reporting requirements.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

Andrew Sneddon

Andrew Sneddon
Partner

Sydney
30 August 1999

Liability is limited by the Accountant's Scheme under the Professional Standards Act 1994 (NSW)

Shareholder's Information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report. The information presented is as at the 23 August 1999.

Shareholdings

Substantial shareholders

Name	Number of ordinary shares held	%I/C
Nicholas Michael Martin (Through N & M Martin Holdings Pty Ltd and Protel Systems Pty Ltd)	25,944,000	41.34
Aram Mirkazemi (Through Mirkazemi Holdings Pty Ltd)	5,103,000	8.13
David Mark Warren (Through Zentel Pty Ltd and Protel Systems Pty Ltd)	5,103,000	8.13
Colonial Limited	4,710,115	7.51
AMP Limited	3,673,097	5.85
Total	**42,765,212**	**70.96**

Distribution of shareholders

Category	No. of shareholders
1-1,000	401
1,001-5,000	1,214
5,001-10,000	201
10,001-100,000	101
100,001-and over	36
Total	**1,953**

Non marketable parcels – 1 shareholder holds less than a marketable parcel.

Twenty largest shareholders

Name	Number of ordinary shares held	% of Issued Capital
N & M Martin Holdings Pty Limited	15,939,000	25.40
Protel Systems Pty Limited	13,340,000	21.26
Mirkazemi Holdings Pty Limited	5,103 000	8.13
Westpac Custodian Nominees	2,180,475	3.47
Zentel Pty Limited	1,768,000	2.82
AMP Life Limited	1,742,411	2.78
National Nominees Limited	1,287,055	2.05
Permanent Trustee Australia Limited	957,479	1.53
Permanent Trustee Australia Limited	920,500	1.47
Permanent Trustee Australia Limited	885,750	1.41
LGSS Pty Limited	856,213	1.36
Permanent Trustee Australia	845,400	1.35
Chase Manhattan Nominees limited	831,482	1.32
Perpetual Trustees Nominees Limited	750,000	1.20
The National Mutual Life Association of Australasia Limited	706,483	1.13
AMP Nominees Pty Limited	608,873	.97
Queensland Investment Corporation	480,000	.76
ANZ Nominees Limited	465,000	.74
Perpetual Trustee Co Limited	424,331	.68
Perpetual Trustee Company (Canberra) Ltd	424,331	.68
Total	**50,515,783**	**80.50**

The 20 largest shareholders held 80.50% of the ordinary shares of the company

Unquoted Equity Securities	Number on Issue	Number of Holders
Options issued under the Protel International Employee Share Option Scheme to take up ordinary shares	6,191,580	53

Voting Rights

At a general meeting, on a show of hands every shareholder present in person or by proxy, representative or attorney has one vote. On a poll, every shareholder present in person or by proxy, representative or attorney has one vote for each Share held.

Corporate Directory

Directors

C J Rooke
Chairman

K Oboudiyat
CEO

N M Martin
Executive Director

A Mirkazemi
Executive Director

D M Warren
Executive Director

W A Bartee
Non-Executive Director

Secretary

K Oboudiyat

Registered Office

Level 3, 12A Rodborough Road
Frenchs Forest NSW 2086
Phone: (02) 9975 7710
Fax: (02) 9975 7720

Share Registry

National Registry Services Pty Limited
Level 1, Grosvenor Place
225 George Street
Sydney NSW 2000

Stock Exchange Listing

Australian Stock Exchange Limited

ASX Code: PRI

Auditors

PricewaterhouseCoopers
580 George Street
Sydney NSW 2000