

2000

FINANCIAL REPORT

FOR THE YEAR ENDED
31 DECEMBER 2000



MELBOURNE **IT**

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MELBOURNE IT LTD ACN 073 716 793

DIRECTORS

R.J. Stewart
I. Morrison
C.M. Adam
K.F. Courtney
M.C. Toner

CHIEF EXECUTIVE OFFICER

A. Kloeden

COMPANY SECRETARY

A.C. Field

REGISTERED OFFICE

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SHARE REGISTER

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AUDITORS

Ernst & Young

INTERNET ADDRESS

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Corporate . governance

The Board of Directors of Melbourne IT Ltd guides and monitors the affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board is responsible for the overall corporate governance of the Company.

Composition of the Board

The Constitution of Melbourne IT allows for the appointment of up to ten directors. There are currently five directors, all of whom are non-executive directors. They have been chosen so as to provide an appropriate mix of experience and qualifications for the governance of the Company. The Chairman is an independent non-executive director. One third of the directors must retire from office at the time of the Annual General Meeting each year. Retiring directors are eligible for re-election.

The performance of the Board is reviewed annually, both as to the performance of the Board as a whole and as to the performance of each individual director, including the Chairman and the CEO.

The Board generally meets monthly, with special meetings called from time to time if required between scheduled meetings. Agendas are established by the Chairman and the CEO to ensure proper coverage of strategic, technical and financial areas throughout the year.

The total remuneration available to non-executive directors is fixed by the shareholders at a General Meeting. The current limit is \$400,000. The issuing of options to directors must be approved by shareholders. Details of remuneration paid and options granted to directors in 2000 are set out in full in the Directors' Report.

Purchase and Sale of Shares by Directors

The Board encourages directors to own shares in the Company to further link their interests with those of the shareholders. Directors must comply with the Company's guidelines for buying and selling shares in Melbourne IT.

External Advice to Directors

In certain circumstances, a director may consider it necessary to seek independent professional advice in carrying out his duties. Should this arise, the director would discuss the matter with the Chairman and any advice considered necessary would be obtained at the expense of Melbourne IT.

Board Committees

The Board has established two committees to assist in carrying out its Corporate Governance role.

They are:

- Audit and Risk Management Committee, and
- Human Resources and Remuneration Committee

Prior to July 2000, a Technical Committee was also in operation (it met twice during 2000). However matters of a technical nature are so central to the company's business, it was decided to deal with these issues at a Board level.

Audit and Risk Management Committee (chaired by Mr K Courtney)

The Audit and Risk Management Committee is responsible for ensuring that proper accounting and auditing practices are maintained; that business risks are identified and managed effectively; that assets are protected against financial loss; and that legal and regulatory obligations are met. It is comprised of three non-executive directors.

It has direct access to the Company's auditors and senior management and is to meet at least three times each year.

Its role includes:

- reviewing reports submitted by external auditors;
- reviewing and recommending to the Board for approval half-yearly and yearly financial statements;
- funds management;
- foreign exchange risk management;
- capital expenditure approval procedures;
- insurances;
- monitoring regulatory compliance;
- risk management generally (including issues such as Occupational Health and Safety and management of information systems and internal controls).

Human Resources and Remuneration Committee (chaired by Dr M Toner)

The Human Resources and Remuneration Committee is responsible for ensuring the Company develops appropriate human resource management and remuneration policies. It is comprised of three non-executive directors.

It has direct access to the senior management of the Company and is to meet at least three times each year.

Particular issues it covers include:

- the recommendation to the Board of the compensation and key performance targets for the CEO;
- recommending to the Board appropriate compensation policies for the non-executive directors;
- approval of the compensation programmes and performance targets for senior executives;
- performance reviews for the CEO and Board
- succession planning for the Board, CEO and key executives;
- management of the Company's Share Option Plan;
- oversight of the Company's superannuation arrangements;
- overseeing the development of appropriate strategies and plans for staff

Directors

The names and details of the directors of the Company in office during the financial year and until the date of this report are:

Robert James Stewart (Chairman)

Mr Stewart was National Managing Partner of Minter Ellison, one of Australia's leading law firms, for eleven years, retiring in June 1999. He was also a non-executive director of Memtec Ltd, a high technology filtration company, from 1988 until 1997. Memtec listed on NASDAQ and then the New York Stock Exchange prior to being taken over by a US company in 1997. Mr Stewart spent five years with Pacific Dunlop from 1976 to 1981 in a variety of general management positions within the Footwear Group. He is also Chairman of Forest Enterprise Australia Limited, a plantation forestry company; Deputy Chairman of eMitch Limited, an online advertising and media placement company; and a Director of Uecom Limited, a telecommunications carrier. Mr Stewart was appointed to the board on 14 September, 1999.

Iain Morrison

Professor Morrison is Professor of Information Systems at The University of Melbourne and has been closely involved for over ten years in the development of the Internet within Australia and in the effective applications of IT to business. He is a founding Director of Melbourne IT. He was elected to the auDA Board on 7 October 1999, and serves as an advisor and consultant to government and the higher education sector on telecommunications, copyright, online legislation and applications of IT and information systems.

Kevin Francis Courtney

Mr Courtney is a Chartered Accountant and a former regional managing partner of Ernst & Young. He is a Director of Adacel Technologies Limited, a Director of two National Australia Bank Group companies and Chairman of the Audit Committee of the National Competition Council. Mr Courtney has held a number of appointments including

Commissioner of the City of Melbourne, a member of the Victorian WorkCover Authority, a member of the Sunraysia Rural Water Authority and a Director of Connect.com.au, the Internet service provider sold to AAPT Limited. Mr Courtney was appointed to the board on 22 October, 1999. He is chairman of the Audit and Risk Management Committee.

Colin McLean Adam

Dr Adam is currently Special Adviser to the Chief Executive of the Commonwealth Scientific and Industrial Research Organisation (CSIRO) having acted as Chief Executive during the previous year. He is responsible for commercial activities of the organisation. He serves as a Board Member for a number of companies, including the Strategic Industry Research Foundation, Ceramic Fuel Cells Ltd and the Australia-Indonesia Institute. He also holds a non-executive Board position with UniSeed Pty Ltd, and has recently been nominated by Minister Kemp to the Board of the Australian Universities Quality Agency. Dr Adam was appointed to the board on 22 April, 1999.

Mark Christopher Toner

*Appointed to board on 1 February 2001

Dr Mark Toner is the former Managing Director of Kvaerner E&C Australia, a subsidiary of the international Engineering & Construction group, Kvaerner E&C which is headquartered in London.

Dr Toner's background is in marketing and management with a career focus on science and engineering, including IT and biotech. He has strong managerial experience in human resources, marketing and sales as well as IT. His qualifications include a BE(Chem) from the University of Melbourne and a PhD from Monash University. Dr Toner is President elect of the Institution of Chemical Engineers in Australia and President of the Business/Higher Education Round Table. Dr Toner was appointed to the board on 1 February 2001. He is chairman of the Human Resources and Remuneration Committee.

Stephen John Gumley

*Former Non-executive Director, retired on 26 January 2001

Dr Gumley was the Chief Executive Officer of the Preston Group Pty Ltd which develops advanced simulation and scheduling software for the international aviation industry. From 1992 to 1997, Dr Gumley was CEO of the entrepreneurial Global Lightning Technologies Group (GLT), which exported Australian developed technology and goods and services to over twenty-five countries in North America, Europe and Asia. Prior to that, he was General Manager of Critec Pty Ltd following several years as Engineering Director. Dr Gumley was appointed to the board on 1 October, 1999 and retired on 26 January 2001 as a result of a posting overseas. Dr Gumley has taken up the position of Vice President of Information Services with Boeing in the USA.

Peter Hamilton Gerrand

*Former CEO and Director, retired on 1 October 2000

Professor Gerrand was the founding CEO of Melbourne IT and is a Professorial Fellow in telecommunications at The University of Melbourne. He created the IT Incubator for eCommerce and Melbourne IT's Domain Name Bureau Service in 1996. Professor Gerrand has thirty years experience in the telecommunications industry. He was awarded the Charles Todd medal by the Australian Telecommunications User Group (ATUG) in 1998 for 'outstanding contributions to the telecommunications industry' and was named the ATUG 'Communicator of the Year'. He is a company Director and industry consultant, and has taken up the position of Executive Director of the Photonics Research Laboratory within the Australian Photonics Co-operative Research Centre.

directors.report

Interests in the Shares and Options of the Company

As at the date of this report, the interests of the directors in the shares and options of the Company were:

	Ordinary Shares	Options over Ordinary Shares
R J Stewart	50,000	58,650
I Morrison	10,000	29,325
C M Adam	40,000	29,325
K F Courtney	50,000	29,325

Principal Activities

The principal activities of the Company during the year were:

administration of the internet name "com.au";
registration of generic Top Level Domain (gTLD) names (.com, .net, .org);
registration of multi-lingual generic Top Level Domain;
research and development in information technologies and telecommunications.

The Online Enterprise Solutions division was restructured and the company sought a better financial return from its skilled staff previously in this division who were re-allocated roles. Other than this, there was no significant change in the nature of other business activities during the year.

Earnings Per Share

	Cents
Basic earnings per share	2.9
Diluted earnings per share	2.9

Results and Dividends

The profit after tax of the Melbourne IT Group for the year ended 31 December 2000 was \$1,481,635.

No dividends were provided for the year ended 31 December 2000.

Review and Result of Operations

Net profit after tax of AUD\$1.481 million (1999: \$1.020 million) and revenue of \$43.320 million (1999: \$14.3 million) for the year was achieved. An EBIT of \$1.534 million (1999:\$1.326 million) exceeded the company's amended forecast of a full year EBIT "in the range of a \$0.5 million loss to \$1m profit" issued to the market in October 2000. This EBIT figure represents a 16% increase on the 1999 result.

The EBIT result of \$1.534 million was achieved in light of a challenging environment the company faced through the year. Although not reaching original prospectus forecasts, the company has improved both EBIT and operating profit after tax over last year, notwithstanding over \$1.6 million of non-recurring project costs.

The company's Internet Names Worldwide division registered nearly 1.2 million global top level domain names (gTLDs -.com, .net and .org) for the year. Melbourne IT's market share of the gTLD total names under management now stands at 4%. Combined with the continued solid performance in .com.au registrations, the company now has in excess of 1.5 million domain names under management worldwide.

Cashflow from operations throughout the year was \$10.6m (1999: \$4.5m) and Gross Margin in advance at 31 December 2000 was \$10.5m (1999:\$4.4m). At the end of the year, Melbourne IT had \$14.9 million in cash on its balance sheet, although the company foresees the potential for some reduction in cash available by the end of the first quarter as a result of tax and creditor payments, together with capital investments due in this period.

Summarised operating results for the year ended 31 December 2000 are:

	Actual \$ 000
Revenue	
Internet Names WorldWide	39,199
ASAC	3,890
Other Revenue	567
Total Revenue	43,656
Total Earnings Before Interest and Tax	1,534
Net Interest Income	806
Net Profit Before Tax	2,340
Tax Expense	(859)
Net Profit After Tax	1,481
Cashflow from operations	10,640

Significant Events after the Balance Date

On February 14, Melbourne IT announced it had signed an agreement with Yahoo!, a leading global internet communications, commerce and media company for Melbourne IT to provide .com, .net and .org domain names to users of Yahoo!® Domains (domains.yahoo.com).

At its Board meeting on 14 March, ICANN resolved to complete negotiations of the remaining unsponsored top-level domains, including negotiations with Melbourne IT's proposed joint venture company NeuLevel regarding the .biz TLD.

Melbourne IT's joint venture with Ericsson, Advanced Services Application Centre (ASAC 21 Ltd) will officially commence in April 2001.

Likely Developments and Expected Results

With the introduction of 7 new gTLD's, some of which may commence with pre-registrations in late 2001, the directors foresee growth in the volume of these domain name registrations globally which will provide an additional revenue source for the Company's INWW division, albeit the real growth in revenue from these gTLD 's is anticipated to commence in 2002. With regard to the existing gTLD market (.com, .net and .org), the continued expansion of the company's authorized reseller networks is foreseen, as is the forging of new relationships in new markets to capitalise on multilingual domain name registrations. Although the gTLD market and volumes have stabilized in the last quarter of 2000, the industry still remains fiercely competitive and is difficult to forecast, even a month ahead. In Australia, competition in the .com.au market is likely to commence in late 2001, which will present additional challenges for the company.

As a result of significantly lower level of acceptance of the digital certificates product by the target market than initially expected, the company is working with contracted parties to improve the rate of sales, and is also considering alternative arrangements for meeting the company's contractual commitments. This could involve an expense for the company in 2001 but it is not possible at this stage to predict the quantum.

Share Options

Details of share options are disclosed in Note 16 to the financial report

Indemnification and Insurance of Directors

During the financial year, the company entered into Deeds of Access, Indemnity and Insurance with its directors and certain senior officers, and in 2000, Mr Adrian Kloeden, CEO entered into Deeds of Access, Indemnity and Insurance.

During the financial year, the company paid a premium in respect of a Directors and Officers Liability Policy covering all directors and officers of the company and related bodies corporate. This contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Directors and other Officers Emoluments

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer, and the executive team. The Remuneration committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance. All senior executives have the opportunity to qualify for participation in the Executive Performance Bonus Plan which currently provides cash and share options incentives where specified criteria are met including criteria relating to the profitability, cash flow and share price growth. Details regarding the issue of share options under this plan are provided in Note 25 to the financial statements.

Details of the nature and amount of each element of the emolument of each director of the company and each of the five executive officers of the company receiving the highest emolument for the financial year are as follows:

Emoluments of Non-Executive Directors of Melbourne IT Ltd:

	Base Fee \$	Statutory Superannuation Contributions \$	Annual Emoluments Total \$	Long Term Emoluments Options Granted
Mr Robert Stewart	148,492	11,085	159,577	58,650
Dr Colin Adam	27,500		27,500	29,325
Prof Iain Morrison	42,317	2,969	45,286	29,325
Mr Kevin Courtney	31,937	2,347	34,284	29,325
Dr Stephen Gumley	31,937	2,347	34,284	0

Emoluments of the Executive Director and five most highly paid Executive Officers of Melbourne IT Ltd:

	Base Fee and Bonus \$	Other \$	Superannuation \$	Annual Emoluments Total \$	Long Term Emoluments Options Granted
Mr Adrian Kloeden*	109,431			109,431	480,000
Prof Peter Gerrand**	522,120	9,578	11,121	542,827	108,000
Mr Tom Dangthanh	140,465	6,000	26,908	173,373	192,000
Mr Andrew Field	100,998	24,141	9,248	134,387	120,000
Mr Steve Mutabazi*	85,408	3,879	44,297	133,584	120,000
Mr Guye Engel	123,096		9,193	132,289	60,000

(* Base fee represents total amounts paid in the 2000 financial year. In the cases marked, it does not represent an annualised amount for officers who were employed for less than the full financial year)

(** Professor Peter Gerrand, former CEO and Executive Director was provided with an eligible termination payment on 30 September 2000)

Directors Meetings

Directors Meetings

Meetings of Committees

	Directors Meetings		Audit	Remuneration	Technical
	Eligible	Attended			
Number of meetings held		18	4	7	2
Mr Robert Stewart	18	18	4	7	
Prof Peter Gerrand	15	15			1
Dr Colin Adam	18	15		4	2
Prof Iain Morrison	18	18	3		2
Dr Stephen Gumley	18	18		7	
Mr Kevin Courtney	18	17	4		

The previous table shows the numbers of meetings of directors held during 2000. The table also shows the number of meetings attended by each director and the number of meetings each director was eligible to attend.

As at the date of this report, the company had an Audit and Risk Management Committee and a Human Resources & Remuneration Committee of the Board of Directors.

The members of the Audit and Risk Management Committee are Mr K. Courtney (Chairman), Mr R. Stewart and Prof. I. Morrison.

The members of the Human Resources & Remuneration Committee are Dr M. Toner (Chairman), Mr R. Stewart and Dr C. Adam.

The members of the Technical Committee were Dr. C. Adam (Chairman), Prof. I. Morrison and Prof. P. Gerrand. The Technical Committee's functions were subsumed by the full Board in the second half of year 2000.

Notes :

Peter Gerrand retired on 1 October 2000

Steve Gumley retired on 26 January 2001. He had chaired the Human Resources & Remuneration Committee.

Mark Toner was appointed to the Board on 1 February 2001 and has taken over as Chairman of the Human Resources & Remuneration Committee.

Rounding

The amounts contained in this report and in the financial statements have been rounded off under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Melbourne IT Ltd support and have adhered to the principles of corporate governance. The company's corporate governance statement is contained in the additional ASX information section of this annual report.

Signed in accordance with a resolution of the directors.



Kevin Francis Courtney (Non-executive Director)
Melbourne, 30th March 2001

Independent Audit Report

To the members of Melbourne IT Ltd

Scope

We have audited the financial report of Melbourne IT Ltd for the financial year ended 31 December 2000 as set out on pages 8 to 22, including the Directors Declaration. The financial report includes the financial statements of Melbourne IT Ltd, and the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at year s end or from time to time during the financial year. The company s directors are responsible for the financial report. 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 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 whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements in Australia, 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 presented 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 Melbourne IT Ltd is in accordance with:

- a the Corporations Law including:
 - (i) giving a true and fair view of the company s and the consolidated entity s financial position as at 31 December 2000 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- b other mandatory professional reporting requirements.


Ernst & Young



Donald C Brumley
Partner
Melbourne, 30th March 2001



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directors .declaration

In accordance with a resolution of the directors of Melbourne IT Ltd, I state that:

- 1 In the opinion of the directors:
 - a the financial statements and notes of the Company are in accordance with the Corporations Law, including:
 - i giving a true and fair view of the Company's financial position as at 31 December 2000 and of the Company's performance for the year ended on that date; and
 - ii complying with Accounting Standards and Corporations Regulations; 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.

On behalf of the Board



Kevin Francis Courtney (Non-executive Director)
Melbourne, 30th March 2001

	Notes	Consolidated		Melbourne IT	
		2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000
Operating revenue	2	43,320	14,337	42,534	14,337
Non operating revenue	2	1,142	626	1,142	626
Total revenue		44,462	14,963	43,676	14,963
Operating profit before income tax	2	2,340	1,462	2,320	1,462
Income tax attributable to operating profit	3	859	442	853	442
Operating profit after income tax		1,481	1,020	1,467	1,020
Retained profits at the beginning of the financial year		500	380	500	380
Total available for appropriation		1,981	1,400	1,967	1,400
Dividends provided for or paid	4	0	900	0	900
Retained profits at the end of the financial year		1,981	500	1,967	500

* Note - numbers have been rounded.

	Notes	Consolidated		Melbourne IT	
		2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000
Current Assets					
Cash		6,811	1,915	6,652	1,915
Receivables	5	3,443	1,991	3,146	1,991
Investments	6	8,171	7,394	8,171	7,394
Other	7	6,315	2,205	7,409	2,205
Total current assets		24,740	13,505	25,378	13,505
Non Current Assets					
Investments	8	2,227	1	2,232	1
Property, plant and equipment	9	4,559	2,907	3,615	2,907
Other	10	464	411	464	411
Total non-current assets		7,250	3,319	6,311	3,319
Total assets		31,990	16,824	31,689	16,824
Current liabilities					
Accounts payable	11	5,256	1,764	5,051	1,764
Provisions	12	1,320	1,435	1,238	1,435
Other	13	12,323	3,979	12,323	3,979
Total current liabilities		18,899	7,178	18,612	7,178
Non-current liabilities					
Provisions	14	29	109	29	109
Other	15	4,268	2,223	4,268	2,223
Total non-current liabilities		4,297	2,333	4,297	2,333
Total liabilities		23,196	9,511	22,909	9,511
Net assets		8,794	7,313	8,780	7,313
Shareholders equity					
Share capital	16	6,813	6,813	6,813	6,813
Retained earnings		1,981	500	1,967	500
Total shareholders equity		8,794	7,313	8,780	7,313

	Notes	Consolidated		Melbourne IT	
		2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000
Cash flows from operating activities					
Receipt of service revenue and recoveries		53,186	17,452	52,697	17,452
Payments to suppliers and employees		(41,769)	(12,865)	(41,436)	(12,865)
Interest received		806	134	806	134
Grant received		27	0	27	0
Bank charges		(427)	(135)	(425)	(135)
Income tax paid		(1,183)	0	(1,183)	0
Net cash flows from operating activities	17	10,640	4,586	10,486	4,586
Cash flows from Investing Activities					
Acquisition of property, plant and equipment		(2,790)	(2,576)	(1,669)	(2,576)
Proceeds from sale of property, plant and equipment		50	0	50	0
Investments	8	(2,227)	0	(3,348)	0
Net cash flows used in investing activities		(4,967)	(2,576)	(4,967)	(2,576)
Cash flows from financing activities					
Proceeds from issue of securities		0	7,500	0	7,500
Dividends paid		0	(970)	0	(970)
Cash outflow associated with listing on ASX		0	(1,037)	0	(1,037)
Net cash flows from financing activities		0	5,493	0	5,493
Net increase in cash held		5,673	7,503	5,519	7,503
Add opening cash brought forward		9,309	1,806	9,309	1,806
Effect of exchange rate changes on balances of cash held in foreign currency		0	0	(4)	0
Closing cash carried forward	17	14,982	9,309	14,824	9,309

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial report has been prepared in accordance with the historical cost convention except where otherwise stated.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Law which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

Change in Accounting Policies

The accounting policies adopted in the preparation and presentation of these financial statements are consistent with those of the previous financial period.

Principles of consolidation

The consolidated financial statements have been prepared so as to reflect the financial position of the Melbourne IT Group as a single economic entity. The consolidated financial statements comprise the accounts of Melbourne IT Ltd as the chief entity and the accounts of all entities which Melbourne IT Ltd has the capacity to control.

The balances and effects of transactions between controlled entities included in the consolidated financial statements have been eliminated.

Foreign Currency

Foreign currency receivables and payables at balance date are translated at exchange rates applicable at balance date. Exchange gains and losses are brought to account in determining the net income for the period.

Translation of financial reports of overseas operations

Assets and liabilities of overseas controlled entities are translated at exchange rates applicable at balance date. The profit and loss attributable to these entities is translated at a weighted average rate for the period. All resulting exchange differences arising on settlement or re-statement are brought to account in determining the profit or loss for the financial year.

Investments in Controlled Entities

Investments in controlled entities are recorded at cost in the Melbourne IT Ltd financial statements and eliminated in the consolidated financial statements.

Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Recoverable Amount

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have not been discounted to their present value using a market determined risk adjusted discount rate.

Expenditure carried forward

Significant items of carry forward expenditure having a benefit or relationship to more than one period are written off over the periods to which such expenditure relates. The investment of \$1,795K in .biz will be amortized over the life of the agreement which is anticipated to be 6-1/2 years plus a one-year option. This investment is for the establishment of the NeuLevel joint venture.

Property, Plant and Equipment

Cost

Items of property, plant and equipment are carried at historical cost.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment. Major depreciation periods are:-

2000

1999

Leasehold improvements
Plant and equipment

the lease term	the lease term
2 to 3 years	2 to 3 years

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of Services

Revenue is recognised by reference to percentage of completion method. The percentage of completion is determined by reference to the extent of services performed to date on the agreement as a percentage of total services to be performed under the agreement. Revenue is recognised in the financial period in which services are rendered.

Where cash has been received for services yet to be performed pursuant to the agreement, the amount has been classified in the Balance Sheet as "Income received in advance".

Interest

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

Income Tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the accounts and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

There were no finance leases as at 31 December 2000.

Employee Entitlements

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Employee entitlements expenses and revenues arising in respect of the following categories: wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and other types of employee entitlements are charged against profits on a net basis in their respective categories.

The value of the employee share option plan described in note 25(b)(iv) is not being charged as an employee entitlement expense.

Earnings per share

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

Diluted earnings per share is determined by dividing the operating profit after tax adjusted for the effect of earnings on potential ordinary shares, by the weighted average number of ordinary shares (both issued and potentially dilutive) outstanding during the financial year.

	Consolidated		Melbourne IT	
	2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000
2 OPERATING PROFIT				
The operating profit before income tax is arrived at after charging the following items:				
Amortisation of non-current assets				
Property	196	60	196	60
Depreciation of non-current assets				
Plant and equipment	926	260	748	260
Depreciation of non-current assets				
Furniture and fittings	11	1	11	1
Bad and doubtful debts				
Trade debtors	575	84	575	84
Net loss on disposal of property, plant and equipment	5	182	5	182
Rental operating leases	1,086	484	1,040	484
Other Provisions				
Provision for employee entitlements	223	257	223	257
Net foreign currency exchange gain/(loss)	434	0	434	0
Net foreign currency translation gain/(loss)	80	0	(215)	0
Included in the operating profit are the following items of operating revenue:				
Fee for service	43,320	14,337	42,534	14,337
Operating revenue	43,320	14,337	42,534	14,337
Included in the operating profit are the following items of non operating revenue:				
Investment income	806	136	806	136
Government grant	10	13	10	13
Recoveries and other	280	434	280	434
Proceeds on sale of non-current assets	46	43	46	43
Non operating revenue	1,142	626	1,142	626
3 INCOME TAX				
The prima facie tax on operating profit differs from the income tax provided in the accounts as follows:				
Prima facie tax on operating profit	795	526	789	526
Tax effect of permanent differences:				
Legal/consulting costs	189	0	189	0
Research & Development	(51)	(36)	(51)	(36)
Other items (net)	63	24	63	24
Prior year tax losses	0	(13)	0	(13)
Under/(over) provision of previous year	(137)	(59)	(137)	(59)
Income tax attributable to operating profit/(loss)	859	442	853	442
4 DIVIDENDS PAID OR PROVIDED FOR				
Dividends proposed				
Unfranked dividends ordinary	0	0	0	0
Dividends paid during the period				
Current year final				
Unfranked dividends ordinary	0	900	0	900
Previous year final				
Unfranked dividends ordinary	0	70	0	70
The amount of franking credits available for the subsequent financial year are:				
Franking account balance as at the end of the financial year	2,298	0	2,298	0
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	815	0	815	0

	Consolidated		Melbourne IT	
	2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000
5 RECEIVABLES (CURRENT)				
Trade debtors	3,478	2,011	3,181	2,011
Provision for doubtful debts*	(35)	(20)	(35)	(20)
	3,443	1,991	3,146	1,991
(a) Australian dollar equivalent of amounts receivable in foreign currencies not effectively hedged :				
United States dollars	2,196	850	2,196	850
Spanish pesetas	297	0	0	0
(b) Credit sales are on 30 day terms. :				
* Movement in provision for doubtful debts:				
balance at beginning of year	(20)	(5)	(20)	(5)
bad debts previously provided for written-off during the year	0	69	0	69
bad and doubtful debts provided for during the year	(15)	(84)	(15)	(84)
balance at end of year	(35)	(20)	(35)	(20)
6 INVESTMENTS (CURRENT)				
Commercial bills	4,286	7,231	4,286	7,231
Term deposit	3,885	163	3,885	163
	8,171	7,394	8,171	7,394

Terms and conditions relating to the above financial instruments :
(i) Commercial bills have a maturity of 13 days with an effective interest rate of 5.93%.
(ii) Term deposits have a maturity of 16 days with an effective interest rate of 6.01%

7 OTHER ASSETS (CURRENT)				
Prepayments	6,094	1,755	6,066	1,755
Accrued income	143	450	143	450
Input tax credit	73	0	73	0
Deposit	5	0	5	0
Loan to US Subsidiary	0	0	871	0
Loan to Spanish Subsidiary	0	0	251	0
	6,315	2,205	7,409	2,205
8 INVESTMENTS (NON-CURRENT)				
Investments at cost comprise:				
Investments in .biz	1,795	0	1,795	0
Investments in US and Spanish subsidiaries	0	0	5	0
Investments in other unlisted entities	432	1	432	1
	2,227	1	2,232	1

Terms and conditions relating to the above financial instruments :
(i) Investments in .biz will be amortized over the life of the agreement which is anticipated to be 6-1/2 years plus a one-year option.
(ii) Investments in controlled entities are initial capital investments and are eliminated in the consolidated financial statements.
(iii) Shares and units invested in unlisted entities are carried at cost. Dividend income is recognised when the dividends are declared by the investee.

Interests in subsidiaries

Name	Country of incorporation	Percentage of equity 2000 interest held by the consolidated entity	1999 %
Internet Names Worldwide (US), Inc - ordinary shares	USA	100	0
Internet Names Worldwide Espana SL - ordinary shares	Spain (a)	100	0

(a) Controlled entity which is audited by other member firm of Ernst & Young International

	Consolidated		Melbourne IT	
	2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000
9 PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	1,574	1,382	1,574	1,382
Provision for amortisation	(212)	(36)	(212)	(36)
	1,362	1,346	1,362	1,346
Plant and equipment				
At cost	4,390	1,860	3,269	1,860
Provision for depreciation	(1,283)	(358)	(1,104)	(358)
	3,107	1,502	2,165	1,502
Furniture and fittings				
At cost	102	61	100	61
Provision for depreciation	(12)	(2)	(12)	(2)
	90	59	88	59
Total property, plant and equipment				
At cost	6,066	3,303	4,943	3,303
Provision for depreciation and amortisation	(1,507)	(396)	(1,328)	(396)
Total written down amount	4,559	2,907	3,615	2,907
10 OTHER ASSETS (NON-CURRENT)				
Future income tax benefit	464	411	464	411
11 ACCOUNTS PAYABLE (CURRENT)				
Trade creditors	92	32	37	32
Sundry creditors	114	990	41	990
Deposits received in advance	890	515	890	515
Accrued expenses	3,984	227	3,907	227
GST Payable	119	0	119	0
Group Tax Payable	3	0	3	0
Payroll Tax Payable	28	0	28	0
FBT Payable	26	0	26	0
	5,256	1,764	5,051	1,764
(a) Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged :				
United States dollars	207	77	196	77
Spanish pesetas	128	0	0	0
(b) Terms and conditions relating to the above financial instruments				
Trade liabilities are normally settled on 30 day terms.				
12 PROVISIONS (CURRENT)				
Dividends	0	0	0	0
Income tax	504	701	422	701
Goods and services tax	0	222	0	222
Employee entitlements	816	512	816	512
	1,320	1,435	1,238	1,435
13 OTHER (CURRENT)				
Income received in advance	12,323	3,979	12,323	3,979
14 PROVISIONS (NON-CURRENT)				
Employee entitlements	29	109	29	109
15 OTHER (NON-CURRENT)				
Income received in advance	4,268	2,223	4,268	2,223

	2000 \$ 000	1999 \$ 000
16 SHARE CAPITAL		
Issued and paid-up capital		
50,000,000 ordinary shares each fully paid	6,813	6,813
	Number of Shares	Number of Shares
Balance at the end of the financial year	50,000,000	50,000,000

Refer to Note 25(b)(iii) for details of options issued over ordinary shares to Directors during the year under the company's Share Option Plan.

756,000 share options lapsed or were forfeited during the financial year, and at the end of the year there were 3,885,000 ordinary shares in respect of which options were outstanding:

	Number	Issue Price	Exercise Price	Expiry Date
	418,950	\$0.00	\$2.20	31 Dec 2005
	301,050	\$0.00	\$2.20	31 Jan 2006
	126,900	\$0.00	\$2.20	30 Sept 2006
	418,950	\$0.00	\$2.20	31 Dec 2006
	301,050	\$0.00	\$2.20	31 Jan 2007
	126,900	\$0.00	\$2.20	30 Sept 2007
	558,600	\$0.00	\$2.20	31 Dec 2007
	401,400	\$0.00	\$2.20	31 Jan 2008
	169,200	\$0.00	\$2.20	30 Sept 2008
	81,000	\$0.00	\$2.46	31 Dec 2005
	77,100	\$0.00	\$2.46	31 Mar 2006
	67,500	\$0.00	\$2.46	30 Sept 2006
	123,000	\$0.00	\$2.75	31 Dec 2006
	77,100	\$0.00	\$2.46	31 Jan 2007
	67,500	\$0.00	\$2.46	30 Sept 2007
	40,000	\$0.00	\$2.46	31 Dec 2007
	102,800	\$0.00	\$2.46	31 Mar 2008
	90,000	\$0.00	\$2.46	30 Sept 2008
	51,000	\$0.00	\$2.75	31-Dec 2006
	161,000	\$0.00	\$2.75	31 Dec 2007
	124,000	\$0.00	\$2.75	30 Sept 2008

	Consolidated		Melbourne IT	
	2000	1999	2000	1999
	\$ 000	\$ 000	\$ 000	\$ 000

17 STATEMENT OF CASH FLOWS

(a) Reconciliation of the operating profit after tax to the net cash flows from operations:

Operating profit after tax	1,481	1,020	1,467	1,020
Depreciation of non-current assets	937	261	759	261
Amortisation of non-current assets	196	60	196	60
Provision for dividends	0	0	0	0
Provision for employee entitlements	223	257	223	257
Provision for doubtful debts	15	15	15	15
Net loss on disposal of property, plant and equipment	(45)	182	(45)	182
Changes in assets and liabilities				
Trade debtors	(1,467)	(1,624)	(1,170)	(1,624)
Prepayments	(4,416)	(1,751)	(4,390)	(1,751)
Accrued income	307	(450)	307	(450)
Future income tax benefit	(53)	(196)	(53)	(196)
Accounts payable	3,116	1,526	2,913	1,526
Income tax provision	(195)	638	(277)	638
Goods and services tax provision	(222)	222	(222)	222
Income received in advance	10,763	4,426	10,763	4,426
Net cash flow from operating activities	10,640	4,586	10,486	4,586

	Notes	Consolidated		Melbourne IT	
		2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000
17 STATEMENT OF CASH FLOWS / continued					
(b) Reconciliation of cash					
Cash balance comprises :					
Cash on hand		6,811	1,915	6,653	1,915
Term deposit		3,885	162	3,885	162
Commercial bills		4,286	7,232	4,286	7,232
Closing cash balance		14,982	9,309	14,824	9,309
18 EXPENDITURE COMMITMENTS					
Lease expenditure commitments					
Operating leases					
- not later than one year		660	356	527	356
- later than one year and not later than five years		1,332	1,521	1,275	1,521
- later than five years		47	0	47	0
		2,039	1,877	1,849	1,877
19 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS					
Employee Entitlements					
The aggregate employee entitlement liability is comprised of:					
Accrued wages, salaries and on costs		912	847	885	847
Provisions (current)	12	816	512	816	512
Provisions (non-current)	14	29	109	29	109
		1,757	1,468	1,730	1,468
20 CONTINGENT LIABILITIES					
(a) The company has received grants from the Federal and State governments that are subject to certain performance criteria and continuing obligations. If these criteria and obligations are not satisfied, there is the possibility that the grants received may need to be repaid. The directors of the company consider that the company has satisfied, or is continuing to satisfy, the performance criteria and obligations in relation to grants received and accordingly the directors consider it unlikely that repayments of such grants will be required.					
(b) The company has pledged a term deposit of US\$100,000 to guarantee due performance under a registrar licence agreement with Network Solutions Incorporated (NSI).					
(c) A standby Letter of Credit of US\$2,000,000 in favour of NSI has been established to secure a trade credit facility.					
(d) Melbourne IT has an agreement with eSign to sell Verisign Digital Certificates into the web-server market in Australia and New Zealand. The company has experienced a significantly lower level of acceptance of the product by the target market than initially expected. The company is working with eSign to improve the rate of sales, and is also considering alternative arrangements for meeting the company's contractual commitments. This could involve an expense for the company in 2001 but it is not possible at this stage to predict the quantum.					
21 SUBSEQUENT EVENTS					
On 14 February 2001, Melbourne IT announced it had signed an agreement with Yahoo! a leading global Internet communications, commerce and media company for Melbourne IT to provide .com, .net and .org domain names to users of Yahoo!fi Domains (http://www.domains.yahoo.com).					
On 14 March 2001 at its Board meeting in Melbourne, ICANN resolved to complete negotiations for the remaining unsponsored top-level domains, including negotiations with Melbourne IT's joint venture company NeuLevel regarding the .biz TLD.					
Melbourne IT's joint venture with Ericsson, ASAC 21 will officially commence in April 2001. Dr Stephen Gumley retired on 26 January 2001. A new non-executive Director, Dr Mark Toner, was appointed to the board on 1 February 2001, and he is also Chairman of the Remuneration Committee.					

	2000	1999
22 EARNINGS PER SHARE		
(a) Basic earnings per share (cents per share)	2.9	2.2
(b) Diluted earnings per share (cents per share)	2.9	2.2
	Number of Shares	Number of Shares
(c) Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	50,000,000	46,787,048
No shares options were exercised or converted during the financial year 2000.		
No shares options were issued post 31 December 2000		
	2000	1999
	\$ 000	\$ 000
	Consolidated	Melbourne IT
	2000	1999
	\$ 000	\$ 000

23 REMUNERATION OF DIRECTORS AND EXECUTIVES OF THE COMPANY				
(a) Directors remuneration				
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the company or economic entity, directly or indirectly, from any entity in the economic entity or any related party:				
	300	246	300	246
The number of directors of the company whose income (including superannuation contributions) falls within the following bands is:				
	2000	1999		
\$ 0 - \$ 9,999	1	8		
\$20,000 - \$29,999	1	1		
\$30,000 - \$39,999	2	0		
\$40,000 - \$49,999	1	1		
\$150,000 - \$159,999	1	1		
(b) Executives remuneration				
Remuneration received or due and receivable by executive officers and the executive director of the consolidated entity whose remuneration is \$100,000 or more, from the company or any entity in the economic entity, in connection with the management of the affairs of the company or any of its subsidiaries, whether as an executive officer or otherwise :				
	1,469	623	1,469	623
The number of executives of the company whose remuneration falls within the following bands is:				
	2000	1999		
\$100,000 - \$109,999	1	1		
\$110,000 - \$119,999	1	0		
\$120,000 - \$129,999	1	0		
\$130,000 - \$139,999	4	0		
\$140,000 - \$149,999	0	1		
\$150,000 - \$159,999	0	1		
\$170,000 - \$179,999	1	0		
\$210,000 - \$219,999	0	1		
\$540,000 - \$549,999*	1	0		

(* Professor Peter Gerrand, former CEO was provided with an eligible termination payment on 30 September 2000)

	Consolidated		Melbourne IT	
	2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000

24 AUDITORS REMUNERATION

Amounts received or due and receivable by the auditors of Melbourne IT Ltd :

- an audit or review of the financial statements of the entity and any other entity in the consolidated entity.	106	66	101	66
- other services in relation to the entity and any other entity in the consolidated entity	488	157	488	157
	594	223	589	223

25 RELATED PARTY DISCLOSURES

(a) The directors of Melbourne IT Ltd during the financial period were:

Morrison, Iain
 Adam, Colin McLean
 Stewart, Robert James
 Gumley, Stephen John
 Courtney, Kevin Francis
 Gerrand, Peter Hamilton (retired on 30 September 2000)

(b) The following related party transactions occurred during the financial period:

- (i) Melbourne IT Ltd leased rental premises from The University of Melbourne for \$271,173 on commercial terms, which was inclusive of all outgoings and insurance.
- (ii) During the period January to December 2000, The University of Melbourne provided payroll services on a fee for service basis at a cost of \$10,000.
- (iii) The directors' current options on 31 December 2000 were : -

Mr Rob Stewart	69,000	(34,500 34,500)	Category A Options Category B Options
Professor Iain Morrison	34,500	(17,250 17,250)	Category A Options Category B Options
Dr Colin Adam	34,500	(17,250 17,250)	Category A Options Category B Options
Mr Kevin Courtney	34,500	(17,250 17,250)	Category A Options Category B Options
Dr Stephen Gumley	34,500	(17,250 17,250)	Category A Options* Category B Options)*
	207,000		

(*Dr Stephen Gumley retired on 26 January 2001, his share options in category A and B lapsed on that date.)

The Melbourne IT Share Option Plan has been established where employees of the company are issued with options over the ordinary shares of Melbourne IT Limited. The options, issued for nil consideration, are issued in accordance with performance guidelines established by the directors of Melbourne IT Limited. The options cannot be transferred and will not be quoted on the ASX. All of the directors (including non-executive directors) and full-time or permanent part-time employees of the company or any of its related body corporates are eligible to participate in the option plan. During the year, 1,530,000 options were issued under this scheme to all eligible employees and 756,000 options lapsed or were forfeited. Refer to Note 16 for details of the exercise price and expiry date of these options. At balance date there were 3,885,000 options on issue under the scheme. No options have been exercised up to 31 December 2000 and accordingly, no amount has been received or is due and receivable from holders of the options.

There was no change in the number of shares held by the directors during the year. Details are disclosed in the Directors' Report.

The market value of ordinary Melbourne IT Limited shares closed at 65 cents on 31 December 2000.

(c) The ultimate Australian parent entity in the wholly owned group is Melbourne IT Limited.

25 RELATED PARTY DISCLOSURES / continued**General Terms of the Options**

Options are issued free of charge. Each option is to subscribe for one fully paid Share. When issued, the Share will rank equally with other Shares. The options are not transferable except to the legal personal representative of a deceased or legally incapacitated option holder.

Under the Option Plan, the options have other terms specified at the time the options are offered. These terms may include conditions which set out the number or percentage of options able to be exercised at certain time periods or under certain circumstances, or performance conditions which may require that the number of options able to be exercised be reduced or that some or all of the options lapse under specified circumstances.

The Board has adopted certain policies concerning the terms of the options to be granted under the Option Plan. The Board has the absolute discretion to change these policies at any time, although any change in its policies will have an affect only on options that are issued at or after the time of the change. Under the Board s policies as in effect at the date of this financial report, three types of options may be issued.

The first type (Category A Options) will be issued in three tranches, each of which will not be exercisable unless the Company s share price exceeds a hurdle price on at least 20 days in any 80 day period between the date the options are issued and the fifth anniversary of the issue date. If this requirement is met, the first tranche of Category A Options will become exercisable on the first anniversary of the issue date, the second tranche will become exercisable on the second anniversary of the issue date and the third tranche will become exercisable on the third anniversary of the issue date.

The second type of option (Category B Options) will become exercisable only if the total shareholder return (assuming the reinvestment of all dividends) received by the Company s shareholders for the relevant performance period is greater than the median total shareholder return received for the same period by the shareholders of a group of comparable companies selected by the Board. The Category B Options also will be divided into three tranches.

The third type of option (Category C Options), which also will be issued in three tranches, will be based on individual performance hurdles. The intention is that the performance hurdles will be related to the long term growth of the Company. The initial number of options issued within a tranche may be subsequently reduced depending on the extent to which the holder of the relevant option has failed to meet the individual performance hurdles that were set for the relevant performance period.

Each person who is issued Category A, B or C Options will receive, within the relevant category of options, 30% of his or her options as tranche 1 options, 30% as tranche 2 options and the remaining 40% as tranche 3 options.

26 SEGMENT INFORMATION

The company operates predominantly in one industry, information technology, and predominantly in geographic area - Australia.

27 FINANCIAL INSTRUMENTS

(a) Interest rate risk

The company's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in 1 year or less		Fixed interest rate maturing in Over 1 to 5 years		Fixed interest rate maturing in More than 5 years		Weighted average effective interest rate [b]	
	2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000	2000 %	1999 %
i Financial assets										
Cash	6,652	1,915	-	-	-	-	-	-	5.41	4.5
Commercial bills	-	-	4,286	-	-	-	-	-	5.93	5.45
Term Deposit	-	-	3,885	-	-	-	-	-	6.01	4.2

All other financial assets and financial liabilities, both recognised and unrecognised, are non-interest bearing.

(b) Net fair values

The carrying amounts of financial assets and financial liabilities, both recognised and unrecognised, at balance date, approximate their aggregate net fair values.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Recognised financial instruments

Cash and cash equivalents: The carrying amount approximates fair value because of their short-term to maturity.

Trade receivables and payable,: The carrying amount approximates fair value.

Commercial bills and Term deposits: The carrying amount approximates fair value because of their short term to maturity.

Shares and units in unlisted entities: The carrying amounts are recorded at cost.

(c) Credit risk exposures

The company's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

The Board of Directors of Melbourne IT Ltd is responsible for the overall corporate governance of the company. The Board guides and monitors the affairs of the company on behalf of the shareholders by whom they are elected and to whom they are accountable.

Composition of the Board

The Constitution of Melbourne IT Ltd allows for the appointment of up to ten directors. There are currently five directors, all of whom are non-executive directors. They have been chosen so as to provide an appropriate mix of experience and qualifications for the governance of the company. The Chairman is an independent non-executive director. One third of the directors (with the exception of the Managing Director) must retire from office at the time of the Annual General Meeting each year. Directors are eligible for re-election.

The performance of the Board is reviewed on an annual basis both as to the performance of the Board as a whole and as to the performance of each individual director, including the Chairman and CEO.

The Board generally meets monthly, with special meetings called from time to time if required between scheduled meetings. Agendas are established by the Chairman and CEO to ensure proper coverage of strategic, financial and major risk areas throughout the year.

The total remuneration available to non-executive directors is fixed by the shareholders at a General Meeting. The current limit is \$400,000. Directors receive a base fee and then an amount for each committee of the Board on which they sit. The issuing of options to directors must be approved by shareholders. Details of remuneration paid and options granted in 2000 are set out in full in the Directors Report.

Purchase and Sale of Shares by Directors

The Board encourages directors to own shares in the company to further link their interests with those of the shareholders. Directors must comply with the company's Guidelines for buying and selling shares in Melbourne IT Ltd.

External Advice to Directors

In certain circumstances a director may consider it necessary to seek independent professional advice in carrying out his duties. Should this arise, the director would discuss the matter with the Chairman and any advice considered necessary would be obtained at the expense of Melbourne IT Ltd.

Board Committees

The Board has established two committees to assist in carrying out its Corporate Governance role.

Audit and Risk Management Committee

The Audit and Risk Management Committee has responsibility for ensuring that proper accounting and auditing practices are maintained; that business risks are identified and managed effectively; that assets are protected against financial loss; and that legal and regulatory obligations are met. It is comprised of three non-executive directors.

It has direct access to the company's auditors and senior management and is to meet at least 3 times each year.

Its role includes:

- i) Reviewing reports submitted by external auditors
- ii) Reviewing and recommending to the Board for approval half-yearly and yearly financial statements
- iii) Funds management
- iv) Foreign exchange risk management
- v) Capital expenditure approval procedures
- vi) Insurances
- vii) Monitoring Regulatory Compliance
- viii) Risk management generally (including issues such as Occupational Health and Safety and management of information systems and internal controls).

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee has the responsibility for ensuring that proper human resource management and remuneration policies are developed and followed by the company. It is comprised of three non-executive directors with CEO attending by invitation.

It has direct access to the senior management of the company and is to meet at least 3 times each year.

Particular issues it is to cover include:

- i) The recommendation to the Board of the compensation and key performance targets for CEO
- ii) Recommending to the Board appropriate compensation policies for the non executive directors
- iii) Approval of the compensation programmes and performance targets for senior executives
- iv) Succession planning for the Board, CEO and key executives
- v) Management of the company's Share Option Plan
- vi) Oversight of the company's superannuation arrangements
- vii) Overseeing the development of appropriate strategies and plans for people management, career development of staff and general human resources policies.

Communication with shareholders

The Board is committed to meeting best practice guidelines in communicating with the company's shareholders. This will include:

- i) Half yearly and annual reports to shareholders
- ii) The Annual General Meeting
- iii) An Investor Relations section on the company's website, which includes all announcements by the company as well as information on the company and its operations, ownership structure and trading in the company's shares.