

Invoices

New

Preview...

Print

Pay Now...

Invoice From

Protel International Pty Ltd

Ship Address

Hinterdorfstrasse 37

CH-4334 Sisseln

Switzerland

To

Protel Technology AG, Europe

Bill Address

Hinterdorfstrasse 37

CH-4334 Sisseln

Switzerland

Payment
30 Days

+41 62 86

+41 62 86

Virtual

Notes

Sales Tax

Exempt

Customer's Purchase Order

Currency

Swiss Franc

Exchange Rate

1.004

Ship Date

31-May-99

Invoice Date

31-May-99

Pay On Date

30-Jun-99

Entered By

John Smith

Checked By

John Smith

Coded By

John Smith

Product

Description

Quantity

99000

15/4 BD T#13580 express switzerland

99000

18/5 T#13716 express switzerland

99000

19/5 T#13721 express switzerland

99000

20/4 BD T#trial cds express switzerland

99000

21/5 T#13647 express switzerland

99000

22/4 BD T#13581 Express switzerland

99000

22/4 BD T#13581 express switzerland

99000

24/4 BD T#13602 express switzerland

99000

Part 6

Financial
Information

1 of 1 (Filtered)

FranceCentre

Microsoft Access

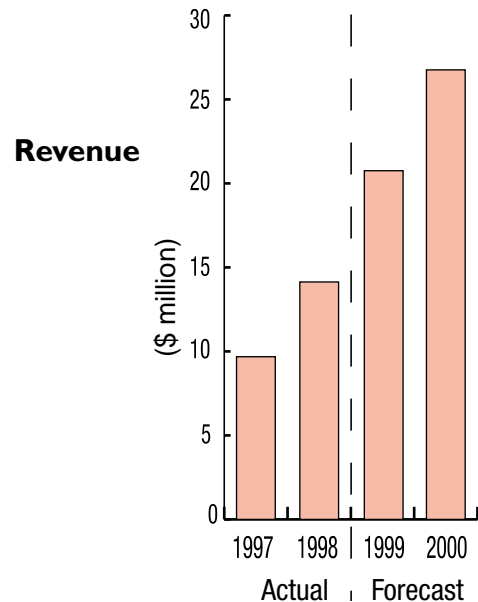
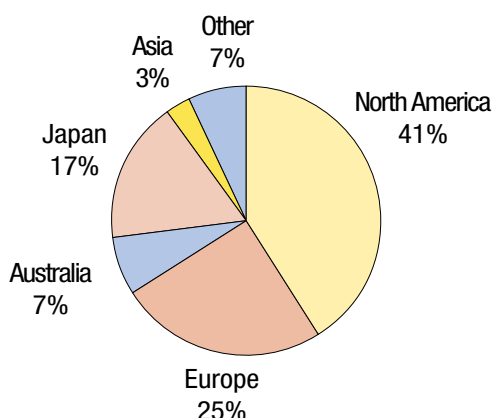
6.1 Overview of Consolidated Profit and Loss

This Section provides historical and forecast financial information for Protel and should be read in conjunction with the Investigating Accountant's Report contained in Section 7. A summary of the consolidated historical profit and loss accounts for the financial years ended 30 June 1997 and 1998 and the Directors' forecasts for 30 June 1999 and 2000 are shown in the far right table (forecasts for 30 June 1999 contain audited historical results for the nine months ended 31 March 1999 and a forecast for the three months to 30 June 1999).

The Directors' financial forecasts for the years to 30 June 1999 and 30 June 2000 reflect the judgement of the Directors, based on present circumstances, of the most likely set of operating and economic conditions and Protel's most likely course of action. The forecasts are based on a number of assumptions and are subject to significant business, economic, regulatory and competitive uncertainties, many of which are outside the control of the Company. In addition, the software industry is particularly difficult to forecast due to the rapid pace of technological change and short product life cycles. During the financial year to 30 June 1998 the Company generated revenues of \$14.1 million. This represented a 46% increase over revenues generated in the year to 30 June 1997. During this period, Protel opened offices in Japan and Switzerland and released *Protel 98*. Forecast revenues for 30 June 1999 and 30 June 2000 are \$20.8 million and \$26.8 million, representing growth of 47% and 29% respectively.

Sales growth was experienced in all regions during 1998. The accompanying chart illustrates the geographic composition of sales revenue. The Directors forecast that in the year ending 30 June 2000 growth will be highest in the North American and Japanese markets. The Company expects to increase sales revenue in North America and Japan by over 30% in the 12 months ending 30 June 2000.

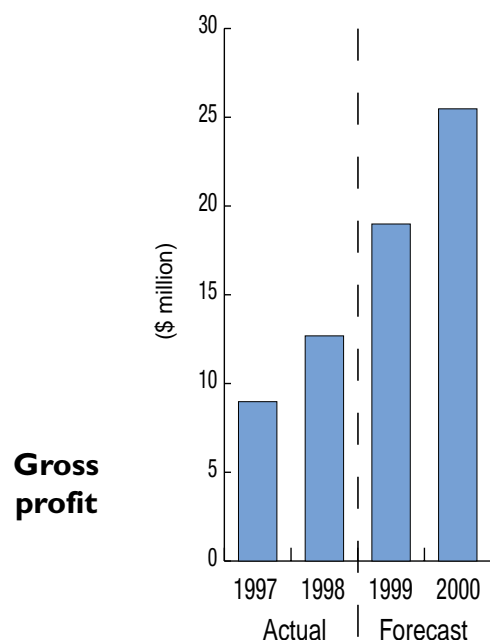
Protel Sales by Region for the 9 months ended 31 March 1999



While sales revenue in Australia is forecast to increase in this period, it will represent a lower proportion of Protel's total revenue in the future.

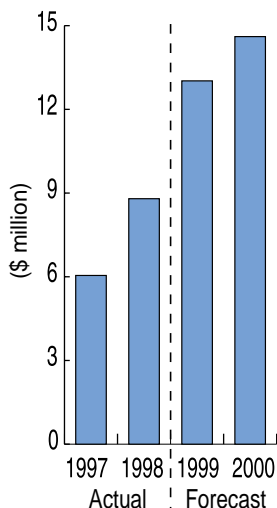
Forecast revenues have been developed utilising both a bottom-up and top-down approach. The bottom-up approach involved an assessment of the sales prospects of individual products in major markets. This was performed with reference to the anticipated timing of product launches and Protel's planned program for marketing campaigns over the forecast period. The top-down approach utilised a geographical analysis of historic sales and an analysis of market trends to determine Protel's forecast revenue.

Since 1997, Protel has consistently achieved gross profit margins of approximately 90%. This reflects the high margins attainable in the 'shrink-wrapped' software industry.



	Historical 30 June		Forecast 30 June	
	1997 \$'000	1998 \$'000	1999* \$'000	2000 \$'000
Revenue	9,683	14,133	20,756	26,758
Gross Profit	8,978	12,685	18,987	25,475
Operating expenses	(6,047)	(8,798)	(13,021)	(14,608)
Depreciation and amortisation	(555)	(692)	(939)	(1,447)
Earnings before interest & tax ('EBIT')	2,376	3,195	5,027	9,420
Interest income	42	28	10	870
Earnings before tax	2,418	3,223	5,037	10,290
Income tax expense	(772)	(865)	(1,509)	(3,328)
Earnings after tax	1,646	2,358	3,528	6,962
Revenue growth (%)	-	46.0	46.9	28.9
EBIT margin (%)	24.5	22.6	24.2	35.2
Earnings after tax growth (%)	-	43.3	49.6	97.3

*The 30 June 1999 forecast is based on audited consolidated results for the nine months to 31 March 1999 and forecast results for the three months to 30 June 1999.



Operating expenses

Operating expenses include research and development, sales, marketing, finance and administration costs. Research and development costs are substantially expensed as incurred, or deferred where associated with the integration of acquired technology.

For the period to 30 June 1998 operating expenses totalled \$8.8 million, an increase of 45%. The increase in operating costs came primarily from the addition of new offices in Japan and Switzerland and a continued expansion of operations in Australia, particularly in the areas of research and development and marketing. Costs of research and development rose by 25% and marketing costs rose by 35%.

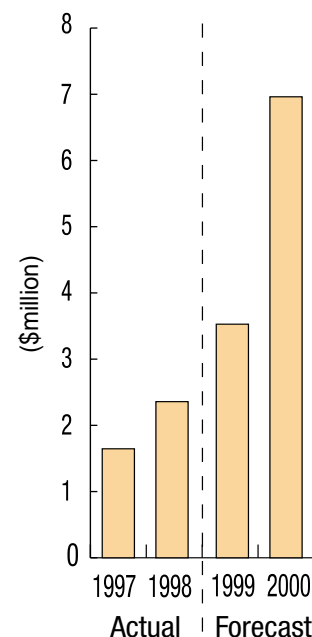
During September 1998 Protel expanded operations in North America through the acquisition of the MicroCode Engineering business. The acquisition facilitated the establishment of Protel's Utah Research and Development Centre. Together with continued expansion of operations in Australia, Europe and Japan this is forecast to result in operating costs increasing by 48% in the year ending 30 June 1999. Protel has established a sales, marketing and operational infrastructure to facilitate the anticipated

sales growth in each major geographic region for the forecast period. Accordingly, operating expenditure is forecast to increase by 12% for the year to 30 June 2000.

The Company incurs depreciation and amortisation charges for plant and equipment. Acquired technology and deferred integration costs are amortised over their estimated useful life. Increases in forecast charges for depreciation and amortisation result primarily from amortisation associated with technology acquired during the period to 30 June 2000.

For the period to 30 June 1998, earnings after tax increased by 43%. Earnings after tax are expected to increase by 50% for the year to 30 June 1999 and by 97% for the year to 30 June 2000.

Earnings after tax



Other assumptions used in forecasts

- The Directors' forecasts assume that there will be no material beneficial or adverse effects from changes in technology, the actions of competitors or in current methods of distribution.
- The forecasts assume that there will be no material benefits or adverse effects from changed economic conditions in the markets in which Protel operates. Further, the Directors have assumed there will be no changes in statutory, legal, accounting, government legislation or regulatory requirements in these markets that would have a material effect on the Company's results. In addition, the forecasts assume that the prevailing taxation treatment of income and expenditure in each geographic region is unchanged.
- It is assumed that \$30 million will be raised from the issue of New Shares under the Offer.
- Protel intends to expand its operations and acquire technology where appropriate. It is difficult to accurately forecast the impact of any potential acquisitions given uncertainties as to specific opportunities that may arise during the forecast period. The Directors have assumed a cash outflow of \$20 million on strategic acquisitions during the forecast period. Interest income has been estimated after allowing for these forecast cash outflows.
- Given uncertainties as to specific acquisitions that may take place, the Directors have assumed no effect on earnings after tax arising from any acquisitions, with the exception of lower forecast interest income to reflect the acquisition cash outflows discussed in the previous paragraph.
- Interest income has been forecast at a fixed rate of 4.8% per annum based on anticipated deposits on hand for the forecast period.
- Labour costs have been forecast based on existing employee levels adjusted for expected new appointments for the period under review. It has been assumed that salary rates will increase by 7% per annum.
- Integration costs of \$485,000 associated with the VHDL technology have been capitalised. This technology is forecast to be released during January 2000 and the cost will be amortised thereafter. It has been assumed that no further integration costs will be capitalised during the forecast period.
- Forecast transactions denominated in foreign currency have been converted to Australian dollars at exchange rates prevailing as at 27 May 1999 as shown below.

USD/A\$	0.6511
JPY/A\$	80.03
EURO/A\$	0.6150

6.2 Sensitivity Analysis

Forecast earnings after tax for the year ending 30 June 1999 consist of historical results for the nine months to 31 March 1999 and forecast results for the three months to 30 June 1999. Forecast earnings after tax are sensitive to variations in certain assumptions used in their preparation. The table below shows how variations in some of the assumptions might be expected to affect forecast earnings after tax.

Care should be taken in interpreting this table. The table treats each movement in an assumption in isolation to the others, which will not normally be the case as movements in variables will usually result in a flow-on or offsetting change in other variables. In practice, Protel's management would respond to an adverse change in variables by taking action to minimise the net effect on earnings after tax.

	Variable Movement +/-	Approximate impact on earnings after tax	
		3 months to 30 June 1999 \$'000	Year to 30 June 2000 \$'000
Protel Company Revenue	+/-5%	174	864
Operating expenditure	+/-5%	134	541
Average exchange rates applied			
- USD	+/-5%	49	282
- JPY	+/-5%	13	105
- European currencies	+/-5%	27	127

6.3 Consolidated Balance Sheet

The consolidated Balance Sheet at 31 March 1999 is derived from the audited financial statements of the Company as at that date. The unaudited consolidated Balance Sheet after Pro Forma and IPO adjustments reflects the audited consolidated Balance Sheet of the Company adjusted for the impact of significant transactions that occurred after 31 March 1999 or that may occur, contingent upon the completion of this Offer. The Pro Forma and IPO adjustments are detailed in Section 7 of this Prospectus.

The consolidated Balance Sheet and Pro Forma and IPO adjusted consolidated Balance Sheet should be read in conjunction with the notes set out in the consolidated financial statements in Section 7.

	Audited Balance Sheet 31 March 1999 \$'000	Pro Forma and IPO adjusted Balance Sheet 31 March 1999 \$'000
CURRENT ASSETS		
Cash	3,563	31,639
Receivables	2,485	2,485
Inventories	190	190
Other	104	-
TOTAL CURRENT ASSETS	6,342	34,314
NON-CURRENT ASSETS		
Plant and equipment	1,518	1,518
Intellectual property	7,331	8,237
Other non-current assets	479	479
TOTAL NON-CURRENT ASSETS	9,328	10,234
TOTAL ASSETS	15,670	44,548
CURRENT LIABILITIES		
Creditors and borrowings	8,872	4,630
Provisions	1,008	1,488
TOTAL CURRENT LIABILITIES	9,880	6,118
NON-CURRENT LIABILITIES		
Borrowings	935	935
Provisions	406	406
TOTAL NON-CURRENT LIABILITIES	1,341	1,341
TOTAL LIABILITIES	11,221	7,459
NET ASSETS	4,449	37,089
SHAREHOLDERS' EQUITY		
Share capital	100	33,220
Retained profits	4,349	3,869
TOTAL SHAREHOLDERS' EQUITY	4,449	37,089

6.4 Dividend Policy

The Directors' current intention is to distribute, as a franked dividend, in the order of 50% of the Company's earnings after tax for the next two years. It is expected that interim and final dividends will be paid in March and September respectively.

Subject to Protel's financial position and the achievement of forecast profits, the Company expects to pay its first dividend as a listed company in respect of the period 1 July 1999 to 31 December 1999 of 2.8 cents per Share in March 2000.

The Directors cannot give any assurances concerning the extent of future dividends, or the franking of such dividends, as they are dependent on the future profits, the financial and taxation position of the Company and the impact of taxation laws. The level of franking of future dividends will depend upon the proportion of the Company's profits taxed in Australia.

6.5 Taxation Advice

The following discussion is a simplified outline of the tax position of Australian resident individual investors. It is intended only as a descriptive summary and is not meant to be an authoritative or complete statement of the law. No comment is possible in relation to the consequences of significant changes to the taxation system. All Investors (and in particular non-residents, corporate and other taxpayers that are not Australian resident individuals) should satisfy themselves of possible tax consequences by consulting their own professional tax advisors.

Taxation of Dividends

- Dividends received by Australian residents are generally taxable as income.
- Individual shareholders who are residents of Australia may be entitled to a franking rebate in respect of franked dividends received from Protel. A franked dividend is one which is paid out of profits in respect of which Protel has paid Australian company tax, currently levied at 36% (franked dividends can be generated by other means, but these are not considered significant for Protel at this time). The Australian company tax paid by Protel determines the available imputation credit attached to the dividend, which in turn determines the franking rebate.
- If a shareholder is in receipt of a franked dividend from Protel and is entitled to a franking rebate, an amount equal to the dividend they receive plus the imputation credit should be disclosed as income in their tax return. A rebate equal to the imputation credit is then available to offset tax on the dividend and on other income. The amount of the

imputation credit available for any dividend will be shown separately on the dividend statements provided by Protel to each shareholder.

- Generally speaking, if your top marginal tax rate is 36% or less, you will pay no further income tax on a fully franked dividend (ignoring the Medicare levy). However, where the amount of the imputation credit exceeds your total tax liability, you cannot obtain a refund of that excess imputation credit.
- To the extent that a dividend is unfranked, there is no imputation credit. The unfranked portion of the dividend should be included as income in your tax return.

Taxation of Disposal of Shares

- Shareholders who dispose of their shares at a price in excess of their cost base may be subject to capital gains tax. Tax is imposed on the gain realised on the disposal, subject to an adjustment of the cost base for inflation over the period of the shareholding if the shares are held for more than 12 months. Averaging of capital gains may reduce the tax payable on the gain realised on disposal.
- Shareholders who dispose of shares at a price which is less than their cost base may incur a capital loss. A capital loss may be able to be offset against capital gains that arise in the same year of income or a subsequent year of income. A capital loss may not be offset against ordinary income. The capital loss will not include any inflation adjustment.
- Gains realised by certain categories of shareholders (such as share traders) may be taxed as ordinary income, without any adjustment for inflation.

6.6 Risk Factors

The business activities of Protel are subject to risks and there are many factors which may impact on the future performance of the Company. Some of these risks can be mitigated by the use of safeguards and appropriate systems and actions, but some are outside the control of the Company and cannot be mitigated.

There are a number of risk factors which investors should consider before making a decision whether or not to apply for Shares. The principal factors include, but are not limited to, those detailed below:

Share investment

Applicants should be aware that there are risks associated with any share investment. The prices at which the Company's Shares trade may be above or below the Offer Price.

Control of Protel

Following the Offer, the Existing Shareholders will, in aggregate, own approximately 61% of the Shares outstanding. This includes interests associated with three Directors who will control approximately 58% of the Shares outstanding. Should the Existing Shareholders who retain their Shares choose to act in concert they will be able to control the Company, elect all the members of the Board, generally direct the affairs of the Company and prevent a change in control of the Company.

The Vendors have indicated that they have no intention to sell or otherwise dispose of any Shares within six months of the Closing Date of the Offer. The Shares represent 58% of the total issued and paid up capital of the Company at the Completion of the Offer. No assurance can be given that the Vendors will not immediately dispose of their Shares after the six month moratorium period or that such action will not have a material adverse effect on the market price of the Shares.

Other Existing Shareholders may sell all or some of their shares at any time.

Six months after the Closing Date, Shares held by the Vendors will be freely tradeable without restriction. No assurance can be given that the Vendors will not immediately dispose of their Shares after the six month moratorium period or that such action will not have a material adverse effect on the market price of the Shares.

Sustainability of growth, margins and dividends

The Company has achieved strong growth in revenue and earnings after tax and the Directors are forecasting strong growth in 2000. The sustainability of this growth is dependent on many factors. There is no assurance that the recent performance of the Company is indicative of the future operating results and future dividend payments.

A significant portion of the Company's business is linked to corporate capital expenditure which fluctuates with consumer demand and general economic conditions. In contrast, the Company's costs are predicated in part on budgeted revenue expectations and these costs are largely fixed in the short term. For example, the Company's expenses associated with an annual product release are substantially committed prior to receipt of any revenue from the product release. Therefore, any weakening in demand for the Company's products would have an immediate impact on revenues and earnings and on the Company's ability to maintain growth in revenues and earnings and the payment of dividends.

Effects of currency exchange rate variations

Protel believes that on an ongoing basis a significant proportion of its revenues will continue to be generated by sales to international customers. Protel does not currently hedge any of these foreign exchange transactions. The competitiveness and profitability of Protel's international sales are dependent on the future level of the A\$ against international currencies. In the future the Company will consider hedging its foreign currency exposure.

Competition

Protel believes that the EDA software industry is currently in a process of consolidation. For example, on 15 June 1999 it was announced that Protel's largest competitor, OrCAD Inc. is to be acquired by Cadence Design Systems, Inc. Cadence is a large EDA company operating primarily in the workstation segment of the market. Cadence/OrCAD and a number of Protel's other competitors have significantly greater financial, technical and marketing resources than Protel. There can be no assurance that these competitors will not use their superior resources, visibility, and existing customer bases, to successfully develop better products and/or market their products more effectively than those of Protel. Additionally, there can be no assurance that workstation EDA companies will not further enter the desktop EDA segment of the market to compete more directly with Protel and other desktop EDA companies.

Key Employees

Protel's future success is dependent on the continued service of its key senior management, professional and technical personnel. Protel's future success also depends on its continuing ability to attract highly qualified technical, professional and managerial personnel. Competition for such personnel is intense, and there can be no assurance that Protel can retain its key employees or that it can attract or retain other highly qualified personnel in the future.

Protel has in place service contracts with its four key executives and each non-executive director. Each contract with a key executive is terminable on 12 months notice by the relevant executive. Protel is focused on providing attractive employment conditions to assist in retaining key personnel. This includes the Protel International Pty Limited Employee Share Option Scheme in which the majority of employees participate. This scheme has recently been complemented by the Protel Option Plan, refer to Section 8.

Rapid technological change

The EDA industry is characterised by rapid technological change, frequent new product introductions, evolving industry standards, and changing customer requirements. The introduction of products embodying new technologies and the emergence of new industry standards can render existing products obsolete and un-marketable. The Company's success is dependent upon its adapting its products and services to meet this changing environment. Failure by the Company to respond adequately, or on a timely basis, to these requirements and developments could impact revenues and earnings adversely.

Management of growth

The Company has experienced rapid growth in the number of employees, the scope of its operating activities, financial systems and the geographic area of its operations. This growth has resulted in an increased level of responsibility for both existing and new management personnel. To manage this growth effectively, the Company will be required to continue to improve its operating and financial systems and to expand, train and manage its employee base.

Reliance on Microsoft Windows

Protel believes that the EDA market is trending toward greater use of the Microsoft Windows NT and Windows 98 operating systems, and anticipates that the use of Microsoft Windows NT or Microsoft Windows 98 based products in the EDA market will grow and expand. Accordingly, all of the new products introduced by Protel during the preceding and current fiscal year, and all of the products Protel is currently developing, are designed for use on Microsoft Windows NT or Microsoft Windows 98 operating systems. Any factor adversely affecting the demand for or use of the Microsoft Windows operating systems, or for EDA applications in general, could result in a material adverse effect on Protel's business, financial condition and results of operations.

Reliance on Proprietary Rights

The products sold by Protel are an amalgamation of software owned by Protel, and software licensed by Protel from third parties. Protel licences the use of its products to customers using a 'shrink wrap licence' which restricts disclosure, copying or transfer of title. The laws relating to trade secrets, copyright and trademarks assist to protect its proprietary rights. The protection provided by these agreements, laws and restrictions varies from country to country and enforcement costs can be prohibitive. Despite the legal and physical protection measures taken (refer to Section 4), unauthorised use or copying of Protel's software is possible by determined and knowledgeable third parties and cannot be prevented.

Protel's future software releases

It is not uncommon for software products as complex as those offered by Protel, to contain defects or

failures when released. Protel has in the past discovered software defects in its products and may experience delays or lost revenue to correct such defects in the future. There can be no assurance that, despite extensive testing by Protel, errors will not be found in products after commencement of commercial shipments. This may result in loss of market share or failure to achieve market acceptance. Any such occurrence could have a material adverse effect upon Protel's business, financial condition or results of operations.

International operations

The legal systems in some of the countries in which Protel operates differ materially from the Australian legal system. This could impact significantly on the enforceability of contracts and of proprietary rights in these countries. While the Company has in place systems to monitor and ensure the efficient operation of its foreign offices, it is not possible to completely erase the inherent risk of Protel conducting operations outside Australia.

Liabilities

Protel licences the use of its products (including software provided by third parties) to its customers. Protel may incur liability to its customers if the software owned by Protel fails. The Company may also be liable if the software it licences or otherwise acquires from third parties fails. Protel may not have recourse to the third party supplier of software in these circumstances. The Company attempts to contractually limit its liability to Protel customers by including limitation of liability provisions in its standard licence terms. Protel distributes in many jurisdictions and the effectiveness of the limitation of liability provisions cannot be assured. The Company carries what the Directors believe to be adequate insurance, however, the possibility of a significant claim cannot be precluded and, if successful, could seriously impact the Company's earnings and balance sheet.

Year 2000

Protel has implemented a program to review the year 2000 compliance status of both its internal systems and products and those of computer software programs licensed or acquired from third parties for incorporation into its products or systems. The Company believes that it will be able to complete its year 2000 compliance review and make any necessary modifications prior to the end of 1999. It further believes that such a review and modification, if necessary, will not result in any additional material expense. However, the compliance of systems licenced or acquired from third parties is dependent on factors outside Protel's control. If key systems, or a significant number of systems fail as a result of year 2000 problems, this may have a material adverse effect on Protel's business, financial condition and results of operations.

6.7 Independent Accountant's Report on Director's Financial Forecast



The Directors
Protel International Limited
Level 3, 12A Rodborough Road
FRENCHS FOREST NSW 2086

PricewaterhouseCoopers
Securities Ltd
ACN 003 311 617
Holder of dealer's licence No 11203

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GPO Box 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

22 June 1999

Independent Accountant's Report on Directors' Financial Forecasts

Dear Sirs

We have prepared this report on the forecast financial information of Protel International Limited and its controlled entities (the Company) for the years ending 30 June 1999 and 30 June 2000 for inclusion in a Prospectus to be dated on or about 22 June 1999.

Expressions defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it should be given by an entity which holds a dealer's licence under the Corporations Law. PricewaterhouseCoopers Securities Ltd is wholly owned by PricewaterhouseCoopers and holds the appropriate dealer's licence.

The consolidated forecast financial information ("the forecast") set out in Section 6 of the Prospectus has been prepared for the purpose of providing investors under the Prospectus with a guide to the future profitability of the Company. The Directors of Protel are responsible for the preparation and presentation of the forecast and the information contained therein, including the assumptions on which the forecast is based (forecast assumptions). We disclaim any responsibility for any reliance placed on this report, or on the forecast to which it relates, for any purposes other than that for which it was prepared.

Scope and Basis of Report

Our review of the forecast was conducted in accordance with Auditing Standard AUS 902 "Review of Financial Reports". Our procedures consisted primarily of inquiry and comparison and other such analytical review procedures we considered necessary so as to adequately evaluate whether the assumptions adopted appear reasonable in the circumstances. These procedures included discussion with the Directors and management of Protel and have been undertaken to form an opinion whether anything has come to our attention which causes us to believe that management's assumptions do not provide a reasonable basis for the preparation of the forecast and whether, in all material respects, the



forecast is properly prepared on the basis of the assumptions and are presented fairly, on a basis consistent with Australian Accounting Standards and the accounting policies of the Company as set out in the consolidated financial statements in Section 7.2 of the Prospectus.

Our review is substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit and accordingly we do not express an audit opinion on the forecast included in the Prospectus.

Report on Assumptions and Opinion on the Directors' Forecast

The forecast has been adopted by the Directors to provide investors with a guide to the potential future profitability of the Company, based upon the achievement of certain economic, operating, development and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of forecasts. Accordingly, investors should have regard to the sensitivity analysis and investment risks set out in Section 6.2 and Section 6.6 respectively of the Prospectus.

The underlying assumptions are subject to significant uncertainties and contingencies often outside the control of the Company. If events do not occur as assumed, actual results achieved by the Company may vary significantly from the forecast. Accordingly, we do not express an audit opinion on the forecast, nor can we confirm or guarantee the achievement of the forecast, as future events, by their very nature, are not capable of independent substantiation.

Based on our review of the forecast:

- (a) nothing has come to our attention which causes us to believe that the key assumptions set out in Section 6.1 of the Prospectus do not provide a reasonable basis for the forecast; and
- (b) in our opinion, the forecast is properly compiled on the basis of the underlying assumptions and is prepared on a basis consistent with the accounting policies adopted by the Company as disclosed in the consolidated financial statements in Section 7 of the Prospectus, Australian Accounting Standards and other mandatory professional reporting requirements.

Declarations of Relationships and Involvement in Prospectus

Details of the involvement of PricewaterhouseCoopers Securities Ltd and PricewaterhouseCoopers in this Prospectus and declarations relating to interests are set out in Section 8 of the Prospectus.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Bob Prosser', written over a horizontal line.

Bob Prosser
Authorised Representative



55	135/8	42 7/8	+1 1/8	
553	31	58 3/4	+ 7/8	- 1/4
4853	704	28 3/8	+ 1/8	- 1/2
26	422	45/8	- 1/8	- 5/8
20	120	39 7/8	- 1 7/8	- 1/8
1635	545/8	25 1/4	- 1/8	- 1/4
30	20 3/4			

Part 7
Investigating
Accountant's Report
& Consolidated
Financial Statements

7.1 Investigating Accountant's Report on Historical Financial Information

**PricewaterhouseCoopers**

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GPO Box 2650
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Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

The Directors
Protel International Limited
PO Box 427
FRENCHS FOREST NSW 1640

22 June 1999

Subject: Investigating Accountant's Report on Historical Financial Information

Dear Sirs

We have prepared this report for inclusion in a Prospectus to be dated on or about 22 June 1999 relating to the issue of 15,000,000 ordinary shares and offer of sale shares of 8,250,000 ordinary shares by Vendors in Protel International Limited (Protel).

Expressions defined in the Prospectus have the same meaning in this report.

Background

Protel started its operations in 1985 when their new software tool for design of circuit boards was released in Australia. Since then the Company has expanded the range of products through innovations and acquisitions. The purpose of this Offer is to enable the Company to list on the ASX and to raise funds to support further technology acquisitions and the ongoing development of the Company.

Scope

You have requested PricewaterhouseCoopers to prepare an Investigating Accountant's Report covering the following financial information:

- (a) the historical consolidated financial results and selected financial and other data of the Company for the financial periods ended 30 June 1997, 30 June 1998 and 31 March 1999 detailed in Appendix 1 of this Report.
- (b) the unaudited Pro Forma and IPO adjusted consolidated Balance Sheet as at 31 March 1999 assuming that the issue and all transactions detailed in Appendix 2 of this report had occurred at 31 March 1999.



The historical consolidated financial results set out in Appendix 1 have been extracted from the audited financial statements of Protel for each of the years ended 30 June 1997 and 30 June 1998 and the nine months ended 31 March 1999. The audited results for the nine months ended 31 March 1999 are included in Section 7.2. The financial statements were audited by PricewaterhouseCoopers or its predecessor firms and the audit reports were unqualified. Other data includes results which have been adjusted so as to make them comparable to the forecast information set out in Section 6. Details of the adjustments are set out in Appendix 1.

We have conducted our review of the financial information in accordance with Auditing Standard AUS902 "Review of Financial Reports". We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- an analytical review of the audited consolidated results of the Company for the relevant historical period
- review of the compilation of the unaudited Pro Forma and IPO adjusted consolidated Balance Sheets
- comparison of consistency in application of Accounting Standards and accounting policies
- review of work papers, accounting records and other documents; and
- enquiry of directors, management and others.

These review procedures were substantially less in scope than an audit examination conducted in accordance with Australian Accounting Standards, the purpose of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Opinion on historical information

Based on our review nothing has come to our attention which causes us to believe that the historical information, as set out in Appendices 1 to 2 of this report, does not fairly present:

- the historical consolidated financial results and selected financial and other data of the Company for the financial periods ended 30 June 1997, 30 June 1998 and 31 March 1999; and



- the historical and unaudited Pro Forma and IPO adjusted consolidated Balance Sheets of the Company at 31 March 1999.

Subsequent events

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our report or that would cause such information to be misleading or deceptive.

Yours faithfully

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

A handwritten signature in cursive script that reads "Andrew Sneddon".

Andrew Sneddon
Partner

Appendix 1

Protel International Limited and Controlled Entities

Selected Financial Data

The following table sets out the selected financial and operating data for the periods indicated and is qualified by reference to, and should be read in conjunction with, the Consolidated Financial Statements and the related notes thereto in section 7.2, and the Unaudited Pro Forma and IPO Consolidated Balance Sheet contained elsewhere herein. The Selected Financial Data have been derived from the audited consolidated financial statements of Protel International Limited prepared in accordance with Australian GAAP.

Consolidated Profit and Loss Accounts

	Year ended 30 June		9 months ended
	1997 \$000	1998 \$000	31 March 1999 \$000
Operating revenue	9,725	14,161	15,494
Operating profit	2,418	3,223	3,856
Income tax attributable to operating profit	522	915	997
Operating profit after income tax	1,896	2,308	2,859
Other			
Operating revenue less interest income (1)	9,683	14,133	15,484
Gross profit (2)	8,978	12,685	13,930
Operating expenses (3)	6,047	8,798	9,472
Depreciation and amortisation (4)	555	692	612
Interest income (5)	42	28	10
Adjusted income tax expense (6)	772	865	1,120
Adjusted operating profit/earnings after tax (7)	1,646	2,358	2,736

Explanatory notes:

- (1) Operating revenue less interest income is extracted from the financial statements as outlined in "Selected Financial Data" with a deduction for interest income during the period
- (2) Represents sales revenue less direct material and manufacturing costs, freight and third party software costs
- (3) Represents all expenses incurred during the period excluding direct material and manufacturing costs, freight and third party software costs, depreciation and amortisation and income tax expense
- (4) Represents expenses derived from the periodical depreciation and amortisation of property, plant and equipment and capitalised intellectual property
- (5) Interest income earned during the period
- (6) The adjusted income tax expense is derived as follows;

Income tax expense per financial statements	522	915	997
Reflects adoption of deferred tax accounting under AASB 1020 in the 30 June 1997 financial year amended over the relevant accounting periods.	160	(50)	(110)
Adjusts for an abnormal tax reduction following forgiveness of an intercompany debt to Protel Exports Pty Limited, which was deregistered during the financial year 1998.	90	-	-
Reverses a future income tax benefit corresponding to the tax effect of carried forward tax losses and business credits in Protel Technology, Inc., which was first recognised in the financial period ended 31 March 1999.	-	-	233
	772	865	1,120

- (7) The adjusted operating profit after tax or earnings after tax represents the operating profit after tax as per the financial statements after the adjustments in note (6) above.

Appendix 2

Protel International Limited and Controlled Entities

Unaudited Pro Forma and IPO adjusted Consolidated Balance Sheet as at 31 March 1999

	Historical 31 March 1999 \$'000	Pro Forma Adjustments \$'000	Pro Forma 31 March 1999 \$'000	IPO Adjustments \$'000	Pro Forma and IPO Adjusted 31 March 1999 \$'000
CURRENT ASSETS					
Cash	3,563	(119)	3,444	28,195	31,639
Receivables	2,485	-	2,485	-	2,485
Inventories	190	-	190	-	190
Other	104	-	104	(104)	-
TOTAL CURRENT ASSETS	6,342	(119)	6,223	28,091	34,314
NON-CURRENT ASSETS					
Plant and equipment	1,518	-	1,518	-	1,518
Other	7,810	906	8,716	-	8,716
TOTAL NON-CURRENT ASSETS	9,328	906	10,234	-	10,234
TOTAL ASSETS	15,670	787	16,457	28,091	44,548
CURRENT LIABILITIES					
Accounts payable	1,062	-	1,062	-	1,062
Borrowings	7,810	787	8,597	(5,029)	3,568
Provisions	1,008	480	1,488	-	1,488
TOTAL CURRENT LIABILITIES	9,880	1,267	11,147	(5,029)	6,118
NON-CURRENT LIABILITIES					
Borrowings	935	-	935	-	935
Provisions	406	-	406	-	406
TOTAL NON-CURRENT LIABILITIES	1,341	-	1,341	-	1,341
TOTAL LIABILITIES	11,221	1,267	12,488	(5,029)	7,459
NET ASSETS	4,449	(480)	3,969	33,120	37,089
SHAREHOLDERS' EQUITY					
Share capital	100	-	100	33,120	33,220
Retained profits	4,349	(480)	3,869	-	3,869
TOTAL SHAREHOLDERS' EQUITY	4,449	(480)	3,969	33,120	37,089

Details of the Pro Forma and IPO adjustments are summarised on the following page.

Appendix 2

Protel International Limited and Controlled Entities

The above unaudited Pro Forma and IPO adjusted consolidated Balance Sheet of Protel as of 31 March 1999 reflects adjustments to the audited consolidated Balance Sheet of the Company appearing elsewhere in this Prospectus to give accounting impact to the following transactions that occurred after 31 March 1999 or that may occur, contingent upon the completion of a successful public offering by Protel: (1) the acquisition of intellectual property, and the issue of convertible notes in April 1999, (2) a 44.4 - 1 split of existing ordinary shares, (3) the declaration of a franked dividend to existing shareholders, (4) the completion of a public offering, and (5) the conversion of the Company's preference shares as a result of a public offering, (6) the conversion of the Company's convertible notes as a result of a public offering at the option of the holders. The convertible notes do not automatically convert upon the public offering. The unaudited Pro Forma and IPO adjusted consolidated Balance Sheet assumes that each of these transactions occurred as of 31 March 1999.

The unaudited Pro Forma and IPO adjusted consolidated Balance Sheet and accompanying Notes should be read in conjunction with the Company's consolidated financial statements, including the Notes thereto, and other financial information appearing elsewhere in this Prospectus. The unaudited Pro Forma and IPO adjusted consolidated Balance Sheet is for informational purposes only and does not purport to represent what the Company's financial position would actually have been if the aforementioned transactions or events occurred on the dates specified or to project the Company's financial position at any future date. The Pro Forma and IPO adjustments are based upon available information and certain adjustments that the Company believes are reasonable.

Pro Forma adjustments

The unaudited Pro Forma consolidated Balance Sheet of Protel International Limited as at 31 March 1999 included in Appendix 2 has been prepared on the basis that the following significant transactions had occurred as at 31 March 1999:

	Balance sheet classification	Debit \$'000	Credit \$'000
Acquisition of intellectual property during April 1999, for cash, deferred consideration and the issue of convertible notes. The convertible notes convert at a 25% discount to the Offer price.	Other non-current assets	906	
	Cash		119
	Borrowings-current		787
1,000,000 ordinary shares are converted to 44,400,000 ordinary shares on the basis of a 44.4 to 1 split of existing capital.	Share capital	100	
	Share capital		100
Protel International Limited declares a franked dividend to existing shareholders prior to listing.	Retained earnings	480	
	Dividend provision		480

IPO adjustments

The unaudited Pro Forma and IPO adjusted consolidated Balance Sheet of Protel International Limited as at 31 March 1999 included in Appendix 2 has been prepared on the basis that the following significant proposed transactions had occurred as at 31 March 1999:

Issue of 15,000,000 ordinary shares at \$2 each.	Cash	30,000	
	Share capital		30,000
Transaction costs relating to the IPO.	Share capital	1,909	
	Other current assets		104
	Cash		1,805
50,972 preference shares of \$78.47 each converted to 2,263,158 ordinary shares.	Borrowings-current	4,000	
	Share capital		4,000
Convertible notes issued as part of technology acquisitions converted to 1,090,430 ordinary shares after listing.	Borrowings-current	1,029	
	Share capital		1,029

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31 March 1999

Protel International Pty Limited
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Schedule I

7.2 Consolidated Financial Statements for the Nine Months ended 31 March 1999

Outlined below and on the following pages are the consolidated financial statements for the nine months ended 31 March 1999 and the audit report thereon dated 26 May 1999. Since the date of signing these financial statements significant changes have occurred to the Company's share capital, including the issue of new stock options and a share split. The full details of the changes in the capital structure are outlined in Section 8.

Profit and Loss Account

For the financial period ended 31 March 1999					
	Note	Consolidated 9 months ended 31 March 1999 \$	12 months ended 30 June 1998 \$	Company 9 months ended 31 March 1999 \$	12 months ended 30 June 1998 \$
Operating revenue	2	15,493,553	14,161,276	10,241,669	10,341,748
Operating profit	3	3,855,909	3,222,667	3,327,034	2,915,996
Income tax attributable to operating profit	6	997,223	914,898	1,113,101	879,845
Operating profit after income tax		2,858,686	2,307,769	2,213,933	2,036,151
Retained profit 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	18	-	101,439	-	-
Total available for appropriation		5,549,316	4,110,630	5,428,088	4,634,155
Dividends provided for or paid	7	(1,200,000)	(1,420,000)	(1,200,000)	(1,420,000)
Retained profit at the end of the financial period		4,349,316	2,690,630	4,228,088	3,214,155

The accompanying notes form an integral part of these financial statements.

Protel International Pty Limited
 and Controlled Entities

Financial Statements

31 March 1999

Schedule 2

Balance Sheet

**For the financial period ended
 31 March 1999**

	Note	Consolidated 31 March 1999 \$	30 June 1998 \$	Company 31 March 1999 \$	30 June 1998 \$
Current Assets					
Cash		3,563,256	1,321,863	2,382,921	560,998
Receivables	8	2,484,642	2,528,735	3,121,982	2,838,337
Inventories	9	189,758	210,080	130,680	117,700
Other	10	104,264	6,440	104,264	-
Total Current Assets		6,341,920	4,067,118	5,739,847	3,517,035
Non-Current Assets					
Receivables	8	-	-	682,132	705,747
Investments	11	-	-	214,221	214,221
Plant and equipment	12	1,518,356	1,343,378	1,233,897	1,107,790
Other	10	7,809,691	1,327,814	7,613,111	1,270,940
Total Non-Current Assets		9,328,047	2,671,192	9,743,361	3,298,698
Total Assets		15,669,967	6,738,310	15,483,208	6,815,733
Current Liabilities					
Accounts payable	13	1,062,163	1,241,460	1,128,650	988,876
Borrowings	14	7,809,909	651,431	7,752,902	610,163
Provisions	15	1,008,224	1,338,245	949,612	1,225,687
Other	16	-	17,062	-	-
Total Current Liabilities		9,880,296	3,248,198	9,831,164	2,824,726
Non-Current Liabilities					
Borrowings	14	934,665	583,463	918,865	560,833
Provisions	15	405,690	116,019	405,091	116,019
Total Non-Current Liabilities		1,340,355	699,482	1,323,956	676,852
Total Liabilities		11,220,651	3,947,680	11,155,120	3,501,578
Net Assets		4,449,316	2,790,630	4,328,088	3,314,155
Shareholders' Equity					
Share capital	17	100,000	10,000	100,000	10,000
Reserves	18	-	90,000	-	90,000
Retained profits		4,349,316	2,690,630	4,228,088	3,214,155
Total Shareholders' Equity		4,449,316	2,790,630	4,328,088	3,314,155

The accompanying notes form an integral part of these financial statements.

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Protel International Pty Limited
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Schedule 3

Statement of Cash Flows

For the financial period ended

31 March 1999

Note	Consolidated 9 months ended 31 March 1999	12 months ended 30 June 1998	Company 9 months ended 31 March 1999	12 months ended 30 June 1998
	\$	\$	\$	\$
Cash flows from operating activities				
Receipts from trade and other debtors	15,256,956	12,485,391	9,738,443	8,524,181
Payments to trade creditors, other suppliers and employees	(11,540,363)	(9,058,721)	(6,547,826)	(5,670,585)
Interest received	9,715	28,141	8,944	27,395
Interest paid	(131,443)	(69,040)	(104,310)	(59,423)
Income taxes paid	(1,007,269)	(721,716)	(934,605)	(711,928)
Dividends received	-	-	-	7,875
Other income received	162,182	77,840	162,182	70,390
Net cash flows from operating activities	23 2,749,778	2,741,895	2,322,828	2,187,905
Cash flows from investing activities				
Payments for property, plant and equipment	(370,440)	(488,637)	(302,639)	(161,965)
Proceeds from sale of property, plant and equipment	-	37,000	-	37,000
Payment for investments	-	-	-	(214,057)
Net settlement with related parties	-	175,940	(100,007)	373,280
Payments for technology acquisitions and licenses	(1,938,766)	-	(1,938,766)	-
Net cash flows from investing activities	(2,309,206)	(275,697)	(2,341,412)	34,258
Cash flows from financing activities				
Proceeds from borrowings	4,300,000	2,652	4,300,000	2,652
Repayment of borrowings	(685,267)	(670,117)	(685,267)	(670,117)
Repayment of lease liabilities	(213,912)	(216,653)	(174,226)	(208,817)
Dividends paid	7 (1,600,000)	(1,320,000)	(1,600,000)	(1,320,000)
Net cash flows from financing activities	1,800,821	(2,204,118)	1,840,507	(2,196,282)
Net increase in cash held	2,241,393	262,080	1,821,923	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	3,563,256	1,321,863	2,382,921	560,998

The accompanying notes form an integral part of these financial statements.

Protel International Pty Limited
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Financial Statements

31 March 1999

Schedule 4/I

Notes to and forming part of the financial statements

I. Statement of significant accounting policies

The financial statements are a general purpose financial report prepared in accordance with Accounting Standards and Urgent Issues Group Consensus Views.

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

(a) Basis of accounting

The accounts 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.

The entity has not adopted a policy of revaluing its non-current assets on a regular basis. 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 Pty Limited as stated in note 11 as at 31 March 1999 and the results of all controlled entities for the period then ended. Protel International Pty Limited and its controlled entities together are referred to in this financial report as the economic entity. The effects of all transactions between entities in the economic 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 account 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

Plant and equipment are depreciated 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

Profits or losses on disposal of plant and equipment are brought to account in determining the result for the financial period.

(e) Inventories

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

Financial Statements

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Protel International Pty Limited
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Schedule 4/2

(f) Receivables and revenue recognition

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.

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

(g) Employee entitlements

Liabilities for employee entitlements to wages, salaries and annual leave are accrued at nominal amounts calculated on the basis of current wage and salary rates.

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 period.

(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 current at the transaction dates.

(iii) 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 30 June 1998. In prior years the foreign operation was considered self-sustaining, whereby the current rate method was applied and exchange differences 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 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.

Protel International Pty Limited
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Financial Statements

31 March 1999

Schedule 4/3

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 company will obtain ownership of the asset, the life of the asset.

Operating lease payments are charged to the profit and loss account 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 company 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 principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(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. Ongoing research and development costs incurred internally are charged to operating profit.

(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

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

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31 March 1999

Protel International Pty Limited
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Schedule 4/4

2. Operating Revenue

	Consolidated 9 months ended 31 March 1999 \$	12 months ended 30 June 1998 \$	Company 9 months ended 31 March 1999 \$	12 months ended 30 June 1998 \$
Sales revenue	15,394,233	13,631,621	10,155,744	9,697,033
Other revenue				
Interest revenue	9,715	28,141	8,944	27,395
Proceeds from disposal of plant and equipment	-	37,000	-	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	89,605	123,088	76,981	62,695
	15,493,553	14,161,276	10,241,669	10,341,748

3. Operating profit

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	14,377	12,653	14,627	11,520
Net gain on foreign currency transactions	-	125,875	-	294,199
Dividends received from subsidiaries	-	-	-	7,875
Interest revenue	9,715	28,141	8,944	27,395
Charges:				
Borrowings costs				
Interest paid/payable:	62,684	69,040	62,196	59,423
Finance charges relating to finance leases	69,686	27,617	43,040	27,617
	132,370	96,657	105,236	87,040
Net loss on foreign currency transactions	9,338	-	32,943	-
Depreciation Plant and equipment	144,652	154,461	97,923	75,390

Protel International Pty Limited
and Controlled Entities

Financial Statements
31 March 1999

Schedule 4/5

	Consolidated 9 months ended 31 March 1999 \$	12 months ended 30 June 1998 \$	Company 9 months ended 31 March 1999 \$	12 months ended 30 June 1998 \$
Amortisation				
Plant and equipment under finance leases	193,583	159,347	173,034	159,347
Training program	-	10,642	-	10,642
Technology acquisitions	124,920	166,560	124,920	166,560
Technology licenses	148,730	201,855	148,730	201,855
Total amortisation	467,233	538,404	446,684	538,404
Provision for Bad and doubtful debts	71,465	138,482	70,903	30,825
Employee entitlements	95,501	67,922	85,854	29,365
Rental expense relating to operating leases	606,426	365,513	256,343	190,537
Research and development	1,318,713	1,525,039	1,318,713	1,526,420

4. Directors' Remuneration

Income paid or payable to directors of the company by the company and related entities	1,110,196	1,277,289	572,160	718,128
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Details of options granted to directors during the nine month period ended 31st March 1999 are set out in note 20.

The number of directors whose total income from the parent entity or related parties was within the specified bands are as follows:

	1999	1998
Income of \$0 to \$9,999	1	1
Income of \$100,000 to \$109,999	1	1
Income of \$130,000 to \$139,999	1	-
Income of \$140,000 to \$149,999	1	-
Income of \$150,000 to \$159,999	-	2
Income of \$180,000 to \$189,999	1	-
Income of \$300,000 to \$309,999	-	1

Financial Statements

31 March 1999

Protel International Pty Limited
and Controlled Entities

Schedule 4/6

5. Remuneration of Auditors

	Consolidated	12 months ended	Company	12 months ended
	9 months ended	30 June 1998	9 months ended	30 June 1998
	31 March 1999	30 June 1998	31 March 1999	30 June 1998
	\$	\$	\$	\$
Amounts received, or due and receivable, by the auditors for:				
Audit	56,400	40,500	37,900	30,500
Other services	76,550	9,000	64,330	-
	132,950	49,500	102,230	30,500

6. Income tax

(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	3,855,909	3,222,667	3,327,034	2,915,996
Income tax calculated @ 36%	1,388,127	1,160,160	1,197,732	1,049,759
Tax effect of permanent differences:				
Research and development claim	(204,958)	(209,196)	(204,958)	(209,196)
Legal expenses	-	21,577	-	21,577
Other	22,077	42,026	10,493	(23,525)
Income tax adjusted for permanent differences	1,205,246	1,014,567	1,003,267	838,615
Recognition of unbooked tax	(298,614)	(140,899)	-	-
Effect of different rates of tax on overseas income	(8,623)	-	-	-
Under/(over) provision in prior year	99,214	41,230	109,834	41,230
Income tax attributable to operating profit	997,223	914,898	1,113,101	879,845
Comprising:				
Current taxation provision	993,525	970,967	971,214	935,914
Deferred income tax provision	205,488	17,634	204,888	17,634
Future income tax benefit	(301,004)	(114,933)	(172,835)	(114,933)
Under (over) provision in prior year	99,214	41,230	109,834	41,230
	997,223	914,898	1,113,101	879,845

(b) The consolidated future income tax benefit shown on Note 10 includes \$133,425 (1998: Nil) attributable to tax losses.

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7. Dividends

	Company 9 months ended 31 March 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 proposed		
Fully franked @ 36%	-	400,000
Dividends provided for or paid	1,200,000	1,420,000
	Company 31 March 1999	Company 30 June 1998
Franking credits available for the subsequent financial period	1,373,711	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.

8. Receivables

	Consolidated 31 March 1999 \$	30 June 1998 \$	Company 31 March 1999 \$	30 June 1998 \$
Current				
Trade debtors	2,598,149	2,571,636	2,880,296	2,542,791
Less: Provision for doubtful debts	(123,922)	(151,685)	(31,107)	(40,000)
	2,474,227	2,419,951	2,849,189	2,502,791
Loan to subsidiaries	-	-	263,753	163,747
Employee advances	3,462	9,067	3,462	4,037
Other debtors	6,953	99,717	5,578	167,762
	2,484,642	2,528,735	3,121,982	2,838,337
Non Current				
Loan to subsidiaries	-	-	682,132	705,747

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9. Inventories

	Consolidated 31 March 1999	30 June 1998	Company 31 March 1999	30 June 1998
	\$	\$	\$	\$
Current				
Raw materials at cost	162,827	117,700	126,698	117,700
Finished goods at cost	26,931	92,380	3,982	-
	189,758	210,080	130,680	117,700

10. Other assets

	Consolidated 31 March 1999	30 June 1998	Company 31 March 1999	30 June 1998
	\$	\$	\$	\$
Current				
Deferred costs for capital raising	104,264	-	104,264	-
Prepayments	-	6,440	-	-
	104,264	6,440	104,264	-
Non-Current				
Long term notes & deposits	9,514	9,514	-	-
Security deposits	58,898	47,360	-	-
Technology acquired	3,955,068	1,332,479	3,955,068	1,332,479
Less: accumulated amortisation	(511,886)	(386,966)	(511,886)	(386,966)
Technology licenses	4,445,354	633,750	4,445,354	633,750
Less: accumulated amortisation	(557,612)	(441,861)	(557,612)	(441,861)
Future income tax benefit	410,355	133,538	282,187	133,538
	7,809,691	1,327,814	7,613,111	1,270,940

The consolidated future income tax benefit includes \$133,425 (1998: \$Nil) attributable to tax losses.

11. 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 parent company or a subsidiary.

Operations commenced in Protel Japan KK on 1 October 1997 and in Protel Europe AG on 1 February 1998.

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12. Plant and equipment

	Consolidated	30 June 1998	Company	30 June 1998
	31 March 1999	30 June 1998	31 March 1999	30 June 1998
	\$	\$	\$	\$
Plant and equipment – at cost	1,304,385	1,099,031	708,402	527,698
Leasehold improvements – at cost	200,340	39,893	191,437	37,583
Less: accumulated depreciation	(756,152)	(589,264)	(332,379)	(202,536)
	748,573	549,660	567,460	362,745
Plant and equipment on lease	1,132,677	1,015,118	999,219	966,445
Less: accumulated amortisation	(362,894)	(221,400)	(332,782)	(221,400)
	769,783	793,718	666,437	745,045
Total plant and equipment	1,518,356	1,343,378	1,233,897	1,107,790

13. Accounts payable

Current (unsecured)				
Trade creditors and accruals	1,062,163	1,231,460	1,128,650	978,876
Other payables	-	10,000	-	10,000
	1,062,163	1,241,460	1,128,650	988,876

14. Borrowings

Current				
Lease liabilities (note 22)	274,843	279,852	217,836	238,584
Commercial bill	-	100,000	-	100,000
Deferred consideration	3,057,055	271,579	3,057,055	271,579
Preference shares	4,000,000	-	4,000,000	-
Convertible note	478,011	-	478,011	-
	7,809,909	651,431	7,752,902	610,163
Non-Current				
Lease liabilities (note 22)	477,954	558,463	462,154	535,833
Commercial bill	-	25,000	-	25,000
Deferred consideration	456,711	-	456,711	-
	934,665	583,463	918,865	560,833

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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 will convert to ordinary share capital in Protel International Pty Ltd on allotment of shares issued for the company's Initial Public Offering. Preference shareholders are 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 company has not completed an Initial Public Offering by 31 March 2000 and the preference shareholders have not exercised their right to convert the preference shares to ordinary shares, the preference shares are redeemable on or before 30 June 2003 at face value, with interest payable at 30% to 35% per annum.

Convertible Notes

On 16 September 1998 the company issued, as part consideration on a technology acquisition, an unsecured US\$300,000 convertible note. This convertible note is convertible to ordinary shares in Protel International Pty Ltd at a cost of \$31 per share on allotment of shares issued for the company's Initial Public Offering. If the option is not exercised within 30 days of completion of the Initial Public Offering, the company may elect to repay the face value of the convertible note with interest at 8.5% per annum. If the company's Initial Public Offering is not completed by 16 September 2001, the face value of the convertible note matures on that date, with interest.

Deferred Consideration

Deferred consideration outstanding at 31 March 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 bill

The commercial bill outstanding as at 30 June 1998 is secured by the following:

- Registered mortgage debenture over the assets and undertakings of Protel International Pty Limited.
- Unlimited director's guarantee from Nicholas Martin, Aram Mirkazemi and David Warren.

15. Provisions

	Consolidated		Company	
	31 March 1999	30 June 1998	31 March 1999	30 June 1998
	\$	\$	\$	\$
Current				
Employee entitlements	297,743	219,379	211,879	140,541
Provision for taxation	710,481	718,866	737,733	685,146
Provision for dividend	-	400,000	-	400,000
	1,008,224	1,338,245	949,612	1,225,687
Non-Current				
Employee entitlements	53,065	38,550	53,065	38,550
Deferred income tax	352,625	77,469	352,026	77,469
	405,690	116,019	405,091	116,019

16. Other Liabilities

Current				
Unearned income	-	17,062	-	-

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17. Share capital

	Consolidated 31 March 1999 Number of Shares	Company 30 June 1998 Number of Shares	Consolidated 31 March 1999 \$	Company 30 June 1998 \$
(a) Paid up capital Ordinary shares of 1 cent each fully paid	1,000,000	1,000,000	100,000	10,000
(b) Movements in the issued and paid up ordinary share capital of the company during the past 9 months were as follows:				
Details	Notes	Number of shares	\$	
Opening balance 30 June 1998		1,000,000	100,000	10,000
Transfer from share premium account	18			90,000
Share capital 31 March 1999			1,000,000	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.

18. Reserves

	Notes	Consolidated 31 March 1999 \$	30 June 1998 \$	Company 31 March 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	90,000	90,000
Transfer to share capital	17	(90,000)	-	(90,000)	-
Balance 31 March 1999		-	90,000	-	90,000
Foreign currency translation reserve opening balance					
Transfer to retained earnings	1(h)	-	(101,439)	-	-
Closing balance		-	-	-	-

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Schedule 4/12

19. Segment information

Geographic segments

1999 (9 months to 31 March)	Australia	North America	Europe	Japan	Other	Inter-segment eliminations	Consolidated
Sales to customers outside the economic entity	1,382,962	6,224,171	4,279,353	2,630,491	877,256	-	15,394,233
Intersegment sales	-	3,724,252	1,890,814	1,354,694	-	(6,969,760)	-
Other income	30,122	47,362	4,644	17,192	-	-	99,320
Total revenue	1,413,084	9,995,785	6,174,811	4,002,377	877,256	(6,969,760)	15,493,553
Segment result	(414,366)	3,570,123	3,099,492	1,470,444	877,256	-	8,602,949
Unallocated expenses							(4,747,040)
Operating profit before tax							3,855,909
Segment assets	15,366,534	2,298,628	826,745	1,071,722	-	(3,893,662)	15,669,967

1998 (12 months to 30 June)	Australia	North America	Europe	Japan	Other	Inter-segment eliminations	Consolidated
Sales to customers outside the economic entity	1,431,165	5,804,837	3,377,278	2,081,027	937,314	-	13,631,621
Intersegment sales	-	2,971,808	638,860	1,363,860	-	(4,974,576)	-
Other income	477,768	47,398	1,982	2,507	-	-	529,655
Total revenue	1,908,933	8,824,043	4,018,120	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 economic entity operated within only one industry segment (manufacturer and distributor of computer software) during the reporting period.

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

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20. Related party information

Directors

The names of persons who were directors of Protel International Pty Limited at any time during the financial period ended 31 March 1999 are as follows:

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

All of these persons were also directors during the year ended 30 June 1998.
Information on remuneration of directors is disclosed in Note 4 to the accounts.

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

	Company 9 months ended 31 March 1999 number	Company 12 months ended 30 June 1998 number
Aggregate number of shares and share options acquired by directors of Protel International Pty Limited or their director-related entities:		
Protel International Employee Share Options convertible to ordinary shares		
Mr K Oboudiyat	5,000	20,000
Mr CJ Rooke	2,000	2,000
	7,000	22,000

	Company 31 March 1999 number	Company 30 June 1998 number
Aggregate numbers of shares and share options held directly, indirectly or beneficially by directors of Protel International Pty Limited or their director-related entities at balance date:		
Ordinary shares:		
Mr NM Martin	635,000	635,000
Mr DM Warren	182,500	182,500
Mr A Mirkazemi	182,500	182,500
	1,000,000	1,000,000
Options over ordinary shares:		
Mr K Oboudiyat	25,000	20,000
Mr CJ Rooke	4,000	2,000
	29,000	22,000

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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 \$14.92. Details of the employee share option scheme are set out in Note 26 to the accounts.

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

	Consolidated		Company	
	31 March 1999	30 June 1998	31 March 1999	30 June 1998
	\$	\$	\$	\$
Aggregate amounts receivable at balance date:				
Current	1,800	547	1,800	547
Aggregate amounts payable at balance date:				
Current	1,026	47,624	1,026	47,624

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

Wholly - Owned Group

The wholly-owned group consists of Protel International Pty 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 11.

Transactions between Protel International Pty Limited and other entities in the wholly-owned group during the nine months ended 31 March 1999 and year ended 30 June 1998 consisted of:

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

21. Financial instruments

(a) Credit risk exposures

The credit risk on financial assets of the company 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 company'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 company intends to hold fixed rate assets and liabilities to maturity.

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	Notes	Floating Interest Rate \$	Fixed interest rate maturities			Non interest bearing \$	Total \$
			1 year or less \$	1 to 5 years \$	Over 5 years \$		
31 March 1999 Consolidated							
Financial Assets							
Cash		2,624,999	-	-	-	938,257	3,563,256
Receivables	8	-	-	-	-	2,484,642	2,484,642
		2,624,999	0	0	0	3,422,899	6,047,898
Weighted average interest rate		3.7%					
Financial Liabilities							
Commercial bills	14	-	-	-	-	-	-
Accounts payable	13	-	-	-	-	(1,062,163)	(1,062,163)
Deferred consideration	14	-	(191,205)	(286,807)	-	(3,035,754)	(3,513,766)
Convertible note	14	-	-	-	-	(478,011)	(478,011)
Preference shares	14	-	(4,000,000)	-	-	-	(4,000,000)
Financial lease liabilities	14	-	(274,843)	(477,954)	-	-	(752,797)
		0	(4,466,048)	(764,761)	0	(4,575,928)	(9,806,737)
Weighted average interest rate			16.52%	7.97%			
Net financial assets (liabilities)		2,624,999	(4,466,048)	(764,761)	0	(1,153,029)	(3,758,839)
30 June 1998 Consolidated							
Financial Assets							
Cash		551,484	-	-	-	770,379	1,321,863
Receivables	8	-	-	-	-	2,528,735	2,528,735
		551,484	-	-	-	3,299,114	3,850,598
Weighted average interest rate		5.00%					
Financial Liabilities							
Commercial bill	14	(125,000)	-	-	-	-	(125,000)
Accounts payable	13	-	-	-	-	(1,241,460)	(1,241,460)
Deferred consideration	14	-	(154,550)	-	-	(117,029)	(271,579)
Financial lease liabilities	14	-	(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

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	Notes	31 March 1999	30 June 1998
Reconciliation of net financial assets to net assets			
Net financial assets as above		(3,758,839)	1,374,244
Non-financial assets and liabilities			
Inventories	9	189,758	210,080
Other assets	10	7,913,955	1,334,254
Plant and equipment	12	1,518,356	1,343,378
Provisions	15	(1,413,914)	(1,454,264)
Other liabilities	16	-	(17,062)
Net assets per balance sheet		4,449,316	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.

22. Commitments for expenditure

	Consolidated		Company	
	31 March 1999	30 June 1998	31 March 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	512,717	356,116	320,639	164,695
Later than one year but not later than 2 years	417,796	307,751	311,619	136,982
Later than 2 years but not later than 5 years	552,166	532,699	259,854	227,267
Later than 5 years	-	25,950	-	25,950
	1,482,679	1,222,516	892,112	554,894
Representing:				
Cancellable operating leases	-	-	-	-
Non-cancellable operating leases	1,482,679	1,222,516	892,112	554,894
	1,482,679	1,222,516	892,112	554,894

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	Consolidated		Company	
	31 March 1999	30 June 1998	31 March 1999	30 June 1998
	\$	\$	\$	\$
Commitments in relation to finance leases are payable as follows:				
Not later than one year	324,056	333,789	260,938	292,521
Later than one year but not later than 2 years	178,901	224,842	162,674	202,212
Later than 2 years but not later than 5 years	353,587	394,084	353,587	394,084
Later than 5 years	-	-	-	-
Minimum lease payments	856,544	952,715	777,199	888,817
Less: Future finance charges	(103,747)	(114,400)	(97,209)	(114,400)
Provided for in accounts	752,797	838,315	679,990	774,417
Representing lease liabilities:				
Current (note 14)	274,843	279,852	217,836	238,584
Non-current (note 14)	477,954	558,463	462,154	535,833
	752,797	838,315	679,990	774,417

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23. Cash flow information

	Consolidated		Company	
	9 months ended 31 March 1999 \$	12 months ended 30 June 1998 \$	9 months ended 31 March 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	2,858,686	2,307,769	2,213,933	2,036,151
Depreciation & amortisation	611,885	692,864	544,607	613,793
Net loss (profit) on disposal of assets	(14,377)	(12,653)	(14,627)	(11,520)
Unrealised foreign exchange differences	9,537	79,120	33,152	(74,937)
(Increase)/ decrease in trade and other debtors	96,370	(1,109,648)	(184,216)	(1,227,663)
(Increase)/decrease in inventories	20,322	(114,862)	(12,980)	(55,891)
(Increase) in prepayments and other assets	(161,640)	(203,528)	(103,687)	(22,008)
(Increase) in technology acquisitions and licenses	(557,478)	-	(557,478)	-
(Increase) in future income tax benefit	(276,817)	(133,538)	(148,649)	(133,538)
Increase/(decrease) in trade and other creditors and employee entitlements	(103,481)	909,651	225,629	762,063
Increase in deferred income tax	275,156	77,469	274,557	77,469
Increase/(decrease) in income tax payable	(8,385)	249,251	52,587	223,986
Net cash inflows from operating activities	2,749,778	2,741,895	2,322,828	2,187,905

24. Non-cash financing and investing activities

Acquisition of plant and equipment by means of finance leases	252,513	721,878	203,369	673,205
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25. 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	
	31 March 1999	30 June 1998	31 March 1999	30 June 1998
	\$	\$	\$	\$
Receivables				
Current				
US Dollar	1,180,711	1,792,977	1,800,148	1,630,330
Japanese Yen	737,506	663,695	854,219	486,743
Austrian Schillings	9,167	-	-	-
Belgian Francs	13,999	-	-	-
Euro Dollars	7,859	-	-	-
French Francs	45,010	-	-	-
German DM	178,902	427,931	-	-
British Pounds	98,593	144,846	98,593	144,846
Swiss Francs	141,720	214,903	207,380	430,204
Non current				
Swiss Francs	11,538	-	-	-
US Dollar	9,514	9,514	682,132	705,747
Japanese Yen	47,360	47,360	-	-
Payable				
Current				
US Dollar	3,455,342	924,196	3,603,250	703,303
Japanese Yen	66,636	165,725	-	78,877
German DM	40,371	11,627	7,687	9,452
French Francs	6,909	-	6,114	-
Italian Lira	2,770	-	2,770	-
British Pounds	-	5,210	-	5,210
Swiss Francs	25,991	103,638	3,202	6,580
Non current				
US Dollar	950,522	22,630	934,723	-

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26. Employee share option scheme

The establishment of the Protel International Pty Limited Employee Share Option Scheme was approved by the board of directors in July 1997. All employees (including executive directors) of Protel International Pty Ltd 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 140,250 options have been granted under the scheme to eligible employees as at 31 March 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 option lasts for five years. The option price payable upon conversion is fixed at \$14.92.

27. Subsequent events

On 16 April 1999 the company entered into an agreement to acquire technology in source and object code from a US corporation. Consideration for this purchase was in the form of cash and a convertible note. The financial effects of the above have not been brought to account at 31 March 1999.

28. Earnings per Share

	9 months ended 31 March 1999 \$	12 months ended 30 June 1998 \$
Basic earnings per share	2.86	2.31
Diluted earnings per share	2.65	2.21
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,000,000	1,000,000

Information concerning the classification of securities

Options

Options granted to employees under the Protel International Employee Share Option Scheme 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 note 26.

Convertible Note

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 14.

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 14.

Protel International Pty Limited
and Controlled Entities
ACN 009 568 772

Financial Statements

31 March 1999


Schedule 5

Directors' Declaration

The directors declare that the financial statements set out on schedules 1 to 4 have been approved and adopted.

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

26 May 1999

Financial Statements

31 March 1999

Protel International Pty Limited
and Controlled Entities

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers
580 George Street
GPO Box 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
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Independent Audit Report to the Directors of

Protel International Pty Limited and Controlled Entities

Scope

We have audited the financial statements of Protel International Pty Limited (the Company) and controlled entities for the financial period ended 31 March 1999 as set out on schedules 1 to 5. The financial statements consist of the accounts of the Company and the consolidated accounts of the economic entity comprising the Company and the entities it controlled at the end of, or during, the financial period. The directors of the Company are responsible for the financial statements. We have conducted an independent audit of the financial statements in order to express an opinion on them to the Directors of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, 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 statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements so as to present a view which is consistent with our understanding of the Company's and the economic entity's financial position, 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 statements of the Company present fairly, in accordance with Australian Accounting Standards and other mandatory professional reporting requirements, the financial position of the Company and the economic entity as at 31 March 1999 and the results of their operations and their cash flows for the financial period ended on that date.

PricewaterhouseCoopers

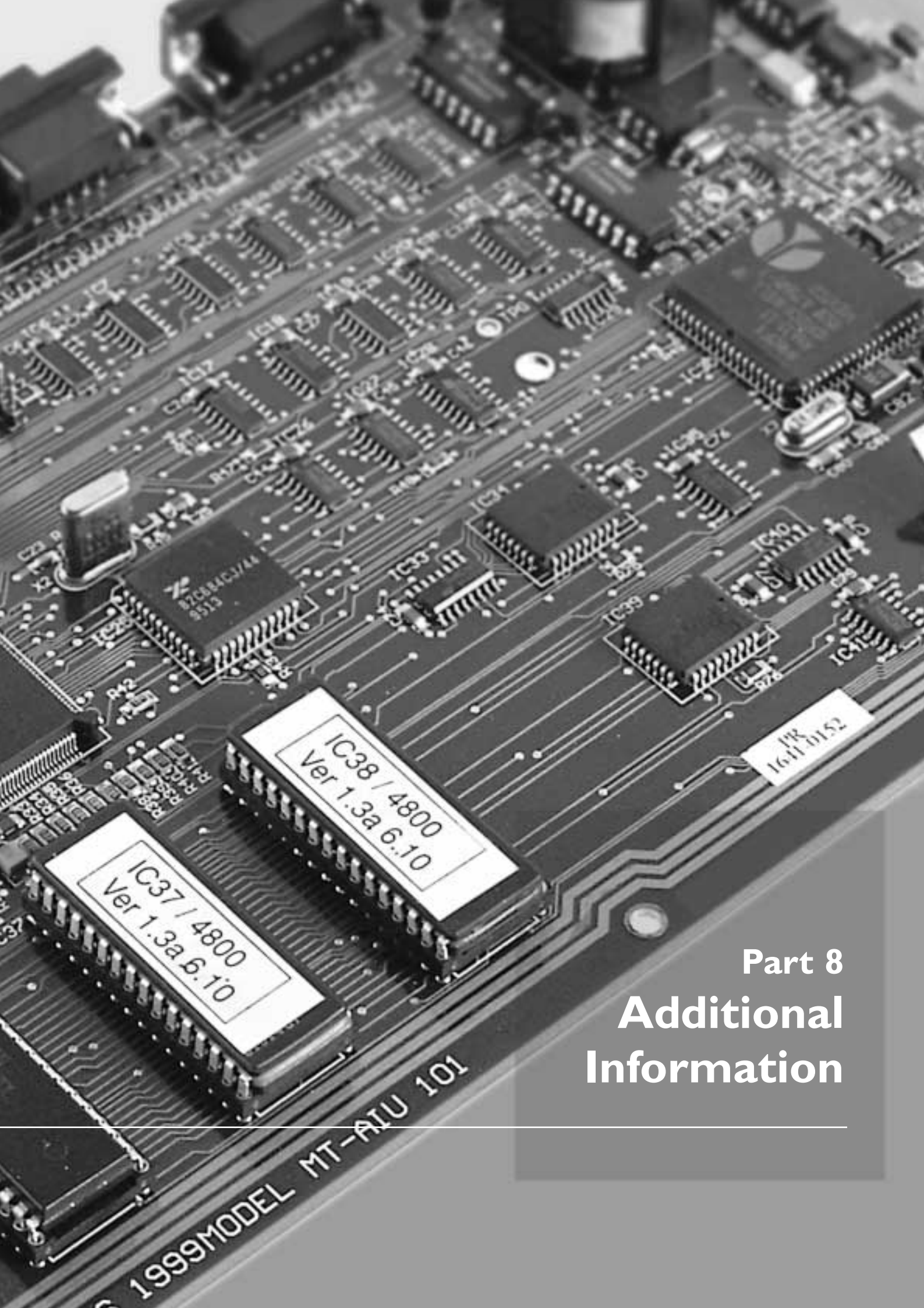
PricewaterhouseCoopers
Chartered Accountants

Sydney

Andrew Sneddon

Andrew Sneddon
Partner

26 May 1999



Part 8
Additional
Information

1999MODEL MT-AIU 101

8.1 Incorporation

Protel's business was started in 1985 and was conducted through Protel Systems Pty Ltd (one of the Vendors) from 1985 to late 1987. Protel International Limited was incorporated in Tasmania on 20 October 1987 and operated under the name Protel Technology Pty Ltd from 23 October 1987 until 26 August 1994. On 26 August 1994 it changed its name to Protel International Pty Limited. Further its status was changed from a proprietary company to a public company and its name to Protel International Limited on 18 June 1999.

On 22 June 1999, the Directors resolved to change the registered office of Protel International Limited from STE 10, 136 Davey Street, Hobart, Tasmania 7000 to Level 3, 12A Rodborough Road, Frenchs Forest, New South Wales 2086. Under the Corporations Law this change does not take effect until the seventh day after the notice of the change is lodged with ASIC, which is expected to be 29 June 1999.

8.2 Rights attaching to Shares

A summary of the rights attaching to the Shares is set out below.

Protel International Limited is offering 23.25 million Shares to investors under this Offer at a price of \$2.00 per Share. The Offer consists of 15 million New Shares to be issued by Protel International Limited and 8.25 million Sale Shares to be sold by the Vendors.

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.

General Meetings and notices

Each holder of Shares will be entitled to receive at least 28 days notice of general meetings and to attend and vote at those meetings. Shareholders will be entitled to receive all notices, accounts and other documents required to be furnished to shareholders under the constitution of Protel International Limited, the Corporations Law or the Listing Rules.

Dividends

Subject to the rights of the holders of Shares issued with any special preferential rights (immediately

following the allotment and sale under the Offer there will be none), dividends will be divisible among the shareholders in proportion to the Shares held by them respectively and will be paid in proportion to the amounts paid or credited as paid on those Shares.

Variation of Class Rights

The rights attaching to any class of shares can only be altered with the approval of a special resolution passed at a separate general meeting of the holders of the shares of that class or with the written consent of the holders of at least three quarters of the shares of that class on issue.

Issue of Further Shares

The allotment and issue of shares is under the control of the Directors and, subject to any restriction on the allotment of shares imposed by the constitution of Protel International Limited, the Listing Rules or the Corporations Law, the Directors may issue or otherwise dispose of shares on terms and conditions as they see fit. One relevant restriction is that under the Listing Rules, shareholder approval is needed to issue shares comprising more than 15% of the shares on issue in any 12 month period unless one of 12 exceptions applies.

Winding Up

Subject to the rights of holders of shares issued with any special or preferential rights (immediately following the allotment and sale under the Offer there will be none) on the winding up of Protel International Limited, the liquidator may, with the sanction of a special resolution of Protel International Limited, divide amongst the holders of Shares the whole or any part of the property of the Company and may determine how the division is to be carried out as between holders of Shares or holders of different classes of shares.

Proportional Takeover Provisions

The constitution of Protel International Limited contains provisions that prohibit the registration of any transfer of shares giving effect to an offer made under a proportional takeover scheme (ie, an offer for some but not all of the holders' shares in Protel International Limited) until the persons holding shares in a class which the offer under the takeover was made have passed an ordinary resolution approving the scheme.

The offeror and any associates of the offeror are excluded from voting on that resolution. To remain effective, these provisions must be renewed by the shareholders in general meeting every 3 years.

This summary does not purport to be exhaustive or to constitute a definitive statement of the rights and

liabilities of the shareholders. A copy of Protel International Limited's constitution is available for inspection as described below.

8.3 Transfer of Shares

Holders of Shares may transfer them electronically (where the shares are Clearing House Electronic Subregister System ("CHESS") approved in accordance with the Securities Clearing House ("SCH") Business Rules, the Corporations Law and the Listing Rules) or by an instrument in writing in any usual or common form that the Directors approve. Protel International Limited will not issue Share certificates to shareholders.

The Directors:

- may, if the Listing Rules permit Protel International Limited to do so; and
- must, if the Listing Rules require Protel to do so (or if the transfer is in breach of the Listing Rules or any restriction agreement between Protel International Limited and any holder of Shares under the Listing Rules),

request SCH to apply a holding lock to prevent a transfer of Shares through CHESS or decline to register any transfer of Shares.

Protel International Limited will apply to be admitted to participate in CHESS, pursuant to the Listing Rules and the SCH Business Rules. Following allotment and transfer, Protel International Limited will provide shareholders with a shareholder statement which sets out the number of Shares allotted or transferred to each shareholder under this Prospectus. If applicable, this notice will also advise shareholders of their Holder Identification Number and Sponsoring Issuer Number.

Shareholders will receive an explanation of sale and purchase procedures under CHESS with their shareholder statement. If the shareholding changes during the month, the shareholder will receive a statement at the end of that month. Shareholders may also request statements at any other time, although Protel International Limited may charge an administrative fee.

8.4 Material Contracts

In the opinion of the Directors, the only contract entered into by Protel International Limited which is or may be material in terms of the Offer or the operation of the business of Protel International Limited or otherwise to potential investors in

Protel International Limited is the underwriting arrangements described below.

8.5 Protel Option Plan

Protel International Limited currently has 6,227,100 options on issue under the Protel Employee Share Option Scheme ("Scheme"). It is proposed that the Scheme continue to operate to allow the exercise of those options. However, no further issues of options under the Scheme will be made.

The Existing Shareholders approved the Protel Option Plan ("Plan") on 22 June 1999. It is proposed that all issues of options to employees in the future will be made under the Plan. Options will not be issued to Directors under the Plan. Any future issue of options to Directors will require shareholder approval under the Listing Rules. The following describes the Plan. The Directors intend that no issue of options will occur under the plan for a period of 12 months after completion of the Offer. A copy of the Plan rules is available for inspection as described below.

Plan Rules

Option issue

The Board may offer options to full-time or part-time employees of the Company. The Board will determine the eligibility of persons and their entitlement having regard to each person's length of service, contribution to the Company and potential contribution to the Company.

Each option is to subscribe for one Share in Protel International Limited. When issued the Share will rank equally with other ordinary shares of Protel International Limited. Options may not be transferred (other than to or from an entity controlled by an employee with the prior written consent of the Board) and quotation of the options on ASX will not be sought. However, if Protel International Limited is listed at the relevant time Protel International Limited will apply to ASX for official quotation of Shares issued on the exercise of the options.

Restrictions on issue

The number of issued and unexercised options which are subject to the Plan together with the number of options issued to employees, executives and directors of the Company that are not subject to the Plan may not at any time exceed 15% of the total number of issued Shares of Protel International Limited.

Vesting of options

Unless the Directors otherwise determine, any options issued under the Plan will vest in the following time periods:

- (a) at the end of twelve months from the date of issue of the relevant options, 25% of the options issued will vest;
- (b) at the end of two years from the date of issue of the relevant options, a further 25% of the options issued will vest;
- (c) at the end of three years from the date of issue of the relevant options, a further 25% of the options issued will vest; and
- (d) at the end of four years from the date of issue of the relevant options, the remainder of the options issued will vest.

Exercise of options

Options may only be exercised after the option has vested and in accordance with the terms of issue and guidelines (if any) adopted by the Board in connection with dealing in securities of Protel International Limited by employees. If any person not previously so holding becomes the holder of a relevant interest in 50% or more of Protel International Limited's voting shares or a Part A Statement in respect of a full takeover scheme or Part C Statement is served on Protel International Limited (as those terms are defined in the Corporations Law) then within 7 days of becoming aware of the occurrence of any such event the Board must give notice to each holder of options that the options may be exercised at any time during the period commencing on the date of the notice and ending on date specified in the notice not being less than 30 days after the date of the notice.

Options will lapse on the earlier of:

- (a) the expiration of five years from the date of issue;
- (b) the expiry of 30 days, or any longer period which the Directors determine, after the holder of the option ceases (as applicable) to be employed by the Company as a result of retirement, death or total and permanent disability;
- (c) a determination of the Board that the holder of the option has acted fraudulently, dishonestly or in breach of his or her obligations to the Company; and
- (d) a determination of the Board that, in the case of a holder of an option which is an associate of an employee, that the applicable employee has ceased to control the associate.

The options may only be exercised within the limitations imposed by the Corporations Law and the Listing Rules.

Exercise price

The exercise price per Share for an option will be equal to the market value of the Shares on the date of offer of the option. The market value is the weighted average price of Shares sold on ASX over the month to 30 June of the year in which the options are issued, or if the Shares are not continually quoted through that month, the price determined by the Board. The setting of the exercise price per Share is subject at all times to the absolute discretion of the Directors.

Bonus issues

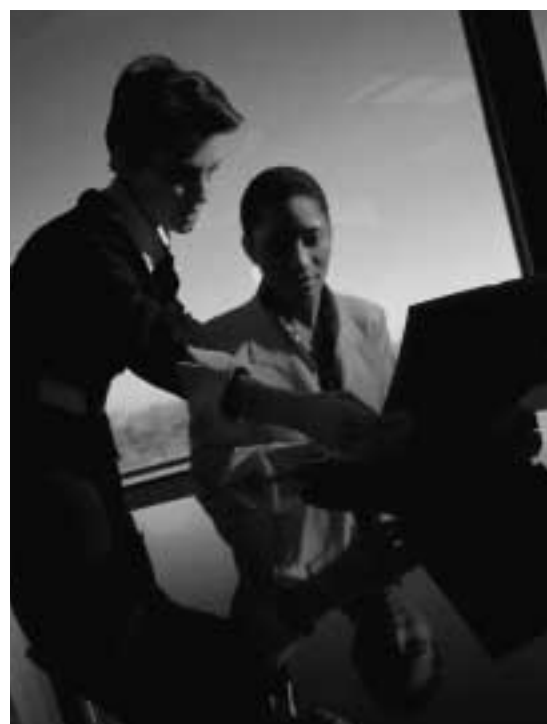
If Protel International Limited makes a bonus issue of securities to ordinary shareholders, each unexercised option will, on exercise, entitle its holder to receive additional shares as if the bonus issue had been made at the exercise.

Rights issues

If Protel International Limited makes a pro rata rights issue of Shares for cash to its ordinary shareholders, then there are provisions for adjustment of the exercise price of unexercised options to reflect the diluting effect of the issue.

Capital reconstructions

If any reconstruction of the issued capital of Protel International Limited takes place (including any consolidation or division of share or reduction or return of capital) the number of Shares on exercise and the exercise price of options (or both) will be reconstructed in accordance with the Listing Rules.



8.6 Options and Convertible Notes

Following the close of the Offer, Protel International Limited's options and convertible notes will be as set out in the following table. The Company divided each ordinary share into 44.4 ordinary shares on 22 June 1999.

Holder	Number and type of Security	Number of Shares on conversion/ exercise	Conversion/ exercise period ¹	Conversion/ exercise price
Options issued under Protel International Employee Share Option Scheme	6,227,100 options	6,227,100	From 5 Aug 2000 to 18 June 2004	\$0.34
Macquarie Equity Capital Markets Limited	1,465,000 Options	1,465,000	From 5 Aug 2000 to 18 June 2004	\$2.20
Microcode Engineering, Inc.	Convertible note to the nominal value of \$504,625	722,744	From 5 Aug 1999 to 4 Sep 1999	\$0.70
Accolade Design Automation, Inc.	Convertible note to the nominal value of \$551,529	367,686	From 5 Aug 1999 to 4 Sep 1999	\$1.50

¹ Assuming that quotation of the Shares on ASX occurs on 5 August 1999.

In addition, at the date of this Prospectus, Protel has convertible preference shares on issue which will automatically convert to 2,263,158 Shares on the date that allotment and transfer of Shares under the Offer occurs.

8.7 Underwriting Arrangements

An Underwriting Agreement dated 22 June 1999 has been entered into between Protel International Limited, the Vendors and the Underwriter. The Underwriter has agreed to underwrite the subscription and sale of all of the Shares offered pursuant to this Prospectus. The Underwriter is free to arrange sub-underwriters at its discretion. The following is a summary of certain material provisions of the Underwriting Agreement.

The Underwriter will receive an underwriting commission equal to 2.75% and a management fee equal to 0.75% of the total funds raised by the Offer. The underwriting commission will be borne by Protel and the Vendors in proportion to the number of Shares offered under the Offer. The management fee will be borne by Protel. In addition, upon the allotment and sale of the Shares under the Offer, Protel International Limited must issue to the Underwriter for no further consideration 1,465,000 options to subscribe for Shares in Protel International Limited. The terms of these options are as follows:

- the options expire on the fifth anniversary of their date of issue (“Expiry Date”) and may not be transferred at any time prior to the Expiry Date;
- subject to any change as a result of a pro-rata or bonus issue to the holders of Shares, or any reconstruction of the issued capital of Protel International Limited, each option entitles the holder to subscribe for one Share in Protel International Limited at an exercise price of \$2.20;
- the options may be exercised, in whole or in part:
 - (i) at any time if any person not previously so holding becomes the holder of a relevant interest in 50% or more of Protel International Limited's voting shares or a Part A statement in respect of a full takeover scheme or Part C Statement is served on Protel International Limited (as those terms are defined in the Corporations Law);
 - (ii) at any time after twelve months from the date of their issue until the Expiry Date; and
 - (iii) by the holder serving on Protel International Limited a completed and signed notice of exercise stating the number of options exercised;
- the options will not participate in any new issues of securities of Protel International Limited; and
- all Shares issued and allotted upon exercise of these options will rank pari passu in all respects with all other issued Shares.

Protel International Limited and the Vendors have given certain representations and warranties to the Underwriter regarding the position of Protel International Limited and the contents of this Prospectus.

Protel International Limited and the Vendors indemnify the Underwriter, and its respective directors, officers, employees, advisors, agents and related bodies corporate (“Indemnified”) against all third party claims, demands, losses, expenses, damages costs and liabilities that any of the Indemnified may suffer directly or indirectly arising as a result of:

- any representation and warranty given by Protel International Limited or the Vendors in the Underwriting Agreement not being true and correct;

- the distribution of this Prospectus and the making of the Offer;
- any advertising or publicity of the Offer issued with the knowledge and consent of Protel International Limited or any of the Vendors; or
- the preparation for or involvement in investigations or reviews conducted by ASIC or ASX;
- the indemnity provided by Protel International Limited and the Vendors does not apply to any losses suffered or incurred directly or indirectly arising out of or in connection with the preparation or involvement in the offer of Shares being made in the United States to certain international institutions concurrently with the Offer which is described in Section 2, or extend to an indemnity against any losses resulting primarily from the fraud, recklessness, wilful misconduct or gross negligence on the part of the Indemnified.

The Underwriter may, without prejudice to any other right or remedy available to it, terminate its obligation to satisfy a shortfall if any of the following events occur before the Shares are allotted or transferred under the Offer:

- (a) a statement contained in this Prospectus is false or misleading, a matter is omitted from this Prospectus (having regard to the provisions of sections 1021 and 1022) or the issue of this Prospectus is misleading or deceptive;
- (b) this Prospectus does not contain (having regard to the matters set out in section 1022(3)) all such information as investors and their professional advisers would reasonably require and reasonably expect to find for the purpose of making an informed assessment of the assets, liabilities, financial position, profits, losses and prospects of Protel International Limited and the rights attaching to the Shares;
- (c) the results of the due diligence investigation performed in respect of Protel International Limited or any other information supplied by Protel International Limited to the Underwriter in relation to Protel International Limited or the Offer is false or misleading or is misleading or deceptive;
- (d) any adverse change, or any development involving a prospective adverse change occurs in the assets, liabilities, financial position, profits, losses or prospects or business or operations of Protel International Limited, or any related body corporate of Protel International Limited;
- (e) there occurs a “significant change” or a “significant new matter” in relation to the Offer, or a “prescribed occurrence” in relation to Protel International Limited (other than an allotment pursuant to this Offer, the convertible notes, or preference shares currently on issue, an employee share plan, a dividend reinvestment or a bonus share plan within the meaning of sections 603 or 1023A(2)(c) or (d));
- (f) hostilities not presently existing commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States of America, Japan, Russia or the Peoples Republic of China;
- (g) the All Ordinaries Index of ASX as at the close of trading on any three consecutive business days after the date of the Underwriting Agreement is at a level that is 10% or more below the level as at the close of trading on the date of the Underwriting Agreement;
- (h) there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any state of Australia a new law, or the Reserve Bank of Australia, or any Commonwealth or State authority, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced prior to the date of the Underwriting agreement), any of which does or is likely to prohibit or regulate the Offer, capital issues or stock markets or involves a material change in fiscal, taxation or exchange control policy, with the exception of the introduction of a goods and services tax;
- (i) a change in management of Protel International Limited occurs or a director of Protel International Limited or any related body corporate or a Vendor is charged with an indictable offence;
- (j) a contravention by Protel International Limited of the Corporations Law, its constitution, or any of the Listing Rules;
- (k) this Prospectus or any aspect of the Offer breaches the Corporations Law or any other applicable law or regulation;
- (l) approval is refused or not granted (subject to customary terms only) to:
 - i) Protel International Limited’s admission to the official list of ASX, or
 - ii) the official quotation of all of the Shares on ASX,
 on or before 5 August 1999, or if granted, the approval is subsequently withdrawn, qualified or withheld;
- (m) ASIC issues an order under section 1033;
- (n) an application is made by ASIC for an order under section 1004 in relation to this Prospectus;
- (o) any person gives a notice under sections 1008(3) or 1008(4) or any person who has previously consented to the inclusion of its name in this Prospectus (or any Supplementary Prospectus) or to be named in this Prospectus withdraws that consent;

- (p) any person gives a notice under section 1023A(1) in relation to this Prospectus;
- (q) Protel International Limited or any Vendor withdraws this Prospectus or the Offer;
- (r) a default by Protel International Limited or any Vendor in the performance of any of its obligations under the Underwriting Agreement;
- (s) a warranty contained in the Underwriting Agreement on the part of Protel International Limited or any Vendor is or becomes untrue or incorrect; or
- (t) litigation, arbitration or industrial proceedings are after the date of this agreement commenced or threatened which could reasonable be expected to have a material adverse effect on the financial position of Protel International Limited or any of its related bodies corporate.

In the case of the happening of an event referred to in paragraphs (c), (d), (f), (h), (i), (j), (r), or (s) above, the Underwriter may not terminate unless it has reasonable and bona fide grounds to believe and does believe that the event has or is likely to have a materially adverse effect on the outcome of the Offer or could give rise to a material liability of the Underwriter under any law or regulation.

The above description is a summary only of the principal terms and conditions of the Underwriting Agreement. A copy of the Underwriting Agreement is available for inspection as set out below.

8.8 Interests of Directors

Under Protel International Limited's constitution, the maximum number of Directors is nine, or such other number approved by shareholders. The minimum number is three. At each annual general meeting one third of all Directors, any Director who has held office for three years and any Director appointed by Directors in the preceding year must retire then being eligible for re-election.

The Managing Director is not required to retire by rotation. The quorum for a Directors meeting is three. The Chairman has a casting vote at Directors' meetings unless only two Directors are present and entitled to vote at a meeting on a question.

As at the date of this Prospectus, and immediately after the close of the Offer, the Shares of Protel International Limited in which the Directors have, or will have, an interest is shown in the table below. Interests include those held directly or through associates.

Director	Before Offer Shares	Options	After Offer Shares	Options
Nicholas Martin ¹	28,194,000	-	25,944,000	-
Aram Mirkazemi ²	8,103,000	-	5,103,000	-
David Warren ³	8,103,000	-	5,103,000	-
Kayvan Oboudiyat	-	1,110,000	-	1,110,000
Carl Rooke	-	177,600	-	177,600
Total	44,400,000	1,287,600	36,150,000	1,287,600

¹Through N & M Martin Holdings Pty Limited and Protel Systems Pty Limited, companies controlled by Nicholas Martin and David Warren.

²Through Mirkazemi Holdings Pty Limited, a company controlled by Aram Mirkazemi.

³Through Zentel Pty Limited and Protel Systems Pty Limited, companies controlled by David Warren and Nicholas Martin.

As at the date of this Prospectus, and immediately after the close of the Offer, no contract or arrangement exists in which a Director is materially interested and which is significant in relation to the business of Protel as a whole.

The constitution of Protel International Limited provides that the non-executive Directors will be entitled to remuneration as determined by Protel International Limited in general meeting, to be apportioned amongst them in such a manner as the Directors in their absolute discretion so determine. Until Protel International Limited in general meeting otherwise decides, the total remuneration may not exceed \$350,000 per annum.

The Directors are entitled to be reimbursed for out of pocket expenses reasonably incurred for the purpose of attending meetings or otherwise in or about the business of Protel International Limited. If a Director, having been requested to do so by the Board, performs extra services or makes any special exertions he may be paid such additional fixed sums or salary determined by the Board.

A Director who has a material personal interest in a matter that is being considered at a meeting of the Directors may only vote on the matter or be present while the matter is being considered at the meeting in the following circumstances where:

- the interest the Director has is one he has as a member of Protel International Limited and in common with other members of Protel International Limited;
- the Board has passed a resolution that states the Directors voting for the resolution are satisfied that the interest should not disqualify that Director from considering or voting on the matter; or
- ASIC has declared that the Director may vote on the matter.

Other than as set out in this Prospectus, no Director or proposed Director of Protel International Limited (and no firm in which a Director or proposed Director is a partner) has any interest in the promotion of, or in any property proposed to be acquired by, Protel International Limited, nor has any amount been paid to any Director or proposed Director of Protel International Limited (and no firm in which a Director or proposed Director is a partner) either to induce him to become, or qualify him as a Director or otherwise, for services rendered by him in connection with the promotion of Protel International Limited.

Each service contract entered into between Protel International Limited and its Directors contains indemnity provisions in favor of each Director. These indemnity provisions do not apply unless the Director has acted in good faith. In addition, these provisions give Directors a right of access to Board papers and requires Protel International Limited to maintain insurance cover for the Directors.

8.9 Expenses of the Offer

The Underwriter's commission is payable by Protel International Limited and the Vendors in proportion to the number of Shares offered under the Offer. Fees and stamp duty payable in respect of the Sale Shares are payable by the Vendors. The Underwriter's management fee and listing fees are payable by Protel International Limited.

The expenses of the Offer are estimated to be approximately \$1.8 million as detailed in the table below.

Item	Amount ¹
Legal	185,000
Underwriting Costs	1,173,750
Financial Advisors	150,000
Accounting Costs	212,000
Prospectus Printing	35,000
Other	50,000
Total	1,805,750

¹ The expenses of the Offer stated do not include expenses that relate to the offer of Shares in the United States to certain international institutions referred to in Section 2.

8.10 Litigation

Protel is not engaged in any legal proceedings which would be likely to have a material adverse effect on its business or financial condition.

8.11 Minimum Subscription

The minimum subscription amount for the Offer is \$41.85 million which is 90% of the total potential proceeds of the Offer. Under section 1035 of the Corporations Law, Protel International Limited is not permitted to complete the Offer unless Applications and accompanying application money equivalent to the minimum subscription amount are received by it under the Offer.

8.12 Interests of Experts and Advisors

No expert or advisor, nor any firm in which the expert is a partner, has had any interest in the promotion of, or in any property proposed to be acquired by, Protel International Limited within the last 2 years, other than an interest referred to below or elsewhere in this Prospectus.

PricewaterhouseCoopers have prepared the Investigating Accountant's Report included in the Prospectus and have performed work in relation to due diligence enquiries. In respect of this work, Protel International Limited has agreed to pay \$60,000 to PricewaterhouseCoopers. PricewaterhouseCoopers acts as auditor of Protel and provides consultancy services and expects to continue to do so after the date of this Prospectus.

PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers, has prepared the Independent Accountant's Report on Directors' Forecasts, for which it will be paid \$44,000.

Macquarie Equity Capital Markets Limited has acted as Underwriter to the Offer. Details of the fees payable to Macquarie Equity Capital Markets Limited are set out above in this Section.

Mallesons Stephen Jaques have acted as solicitors to Protel International Limited in connection with the Offer and performed work in relation to due diligence enquiries, preparation of the Protel Option Plan and the service agreements of various key executives. In respect of this work, Protel International Limited has agreed to pay Mallesons Stephen Jaques hourly fees, disbursements and service charges that are not expected to exceed \$185,000.

National Registry Services Pty Limited has agreed to provide share registry services to Protel International Limited. In this regard it is being paid a fee per application processed in respect of the Offer and a transaction based fee for future services.

KPMG Corporate Finance (NSW) Pty Limited has acted as Financial Adviser to Protel International Limited and will receive an advisory fee of \$150,000.

8.13 Consents

PricewaterhouseCoopers have given and have not, before lodgment of the Prospectus, withdrawn their consent to:

- be named in the Prospectus as auditor of the Company in the form and context in which it is named; and
- the issue of this Prospectus with its Investigating Accountant's Report (Section 7) in the form and context in which it is included and to all references to that report in this Prospectus.

PricewaterhouseCoopers has not authorised or caused the issue of this Prospectus.

PricewaterhouseCoopers Securities Ltd has given and has not, before lodgment of this Prospectus withdrawn its consent to the issue of this Prospectus with its report on Directors' forecasts (Section 6) in the form and context in which it is included and to all references to that report. PricewaterhouseCoopers Securities Ltd has not authorised or caused the issue of this Prospectus.

Macquarie Equity Capital Markets Limited has given and has not, before lodgment of this Prospectus, withdrawn its consent to be named as Underwriter to the Offer in the form and context in which it is named. Macquarie Equity Capital Markets Limited has not authorised or caused the issue of this Prospectus.

KPMG Corporate Finance (NSW) Pty Limited has given and has not, before lodgment of this Prospectus, withdrawn its consent to be named as Financial Adviser to the Offer in the form and context in which it is named. KPMG Corporate Finance (NSW) Pty Limited has not authorised or caused the issue of this Prospectus.

Mallesons Stephen Jaques have given and have not, before lodgment of this Prospectus, withdrawn their consent to be named in the Prospectus as solicitors to Protel International Limited in the form and context in which they are named. Mallesons Stephen Jaques have not authorised or caused the issue of this Prospectus.

National Share Registries Pty Limited has given and has not, before lodgment of this Prospectus, withdrawn its consent to be named in the Prospectus as the Share Registry in the form and context in which it is named. National Share Registries Pty Limited has not authorised or caused the issue of this Prospectus.

8.14 ASIC Modifications

Protel International Limited has obtained exemptions from and modifications of the application of the Corporations Law granted by ASIC, the effects of which are:

- to allow the Offer of Sale Shares to be made pursuant to this Prospectus and to remove the requirement under Division 3A of Part 7.12 of the Corporations Law that the Offer of Sale Shares be made under a secondary sale notice; and
- to modify section 622(3) of the Corporations Law so that section 615 of the Corporations Law does not apply to the acquisition by the Underwriter of any Sale Shares pursuant to the underwriting arrangements described in this Section.

8.15 Documents Available for Inspection

A copy of the following documents verified by statement in writing will be available for inspection without charge between 9am and 5pm at Protel International Limited's registered office for a period of 12 months after the date of lodgment of this Prospectus with ASIC:

- the Underwriting Agreement referred to in this Section;
- all reports, letters or other documents, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus;
- the Protel Option Plan Rules referred to in this Section;
- the constitution of Protel International Limited referred to in this Section;
- each consent to the issue of this Prospectus referred to in this Section.

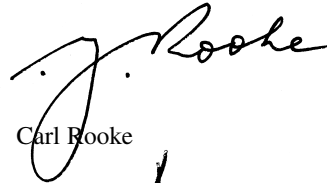
As noted earlier in this Section, Protel International Limited's registered office is currently STE 10, 136 Davey Street, Hobart, Tasmania 7000 and is expected to change to Level 3, 12A Rodborough Road, Frenchs Forest, New South Wales 2086 on 29 June 1999. The above documents will be available for inspection at its current registered office until the change in registered office takes effect in accordance with the Corporations Law at which time they will be available for inspection at the new registered office address.

Directors' Statement

Signed by each Director of Protel International Limited or a person authorised by him in writing to sign this Prospectus on his behalf.



Nicholas Martin



Carl Rooke



David Warren



Aram Mirkazemi



Kayvan Oboudiyat



William Bartee

Vendors' Signatures

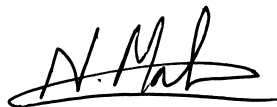
This Prospectus also constitutes an Offer for sale of Shares by the Vendors and accordingly each Vendor signs this Prospectus as required by the Corporations Law and ASIC instrument referred to in this Prospectus.



Director
Nicholas Martin
N & M Martin Holdings Pty Limited



Director
David Warren
Zentel Pty Limited



Director
Nicholas Martin
Protel Systems Pty Limited



Director
Aram Mirkazemi
Mirkazemi Holdings Pty Limited

9 Definitions

Allotment Date means the date of allotment of Shares under the Offer.

Application means a valid application to subscribe for or acquire a specified number of Shares under the Offer.

Application Form means the form attached to this Prospectus for investors to apply for Shares under the Offer.

ASIC means the Australian Securities & Investments Commission.

ASX means Australian Stock Exchange Limited.

Board means the board of directors of Protel International Limited.

Closing Date means the last date which Applications under the Offer will be accepted, being Friday 23 July 1999. This date may be varied (for example, brought forward) without prior notice by Protel International Limited, in conjunction with the Underwriter.

Company or Protel means Protel International Limited and all its controlled entities.

Directors means the directors of Protel International Limited.

EDA means Electronic Design Automation.

EPS means Earnings Per Share.

Existing Shareholders means the holders of Shares in Protel International Limited at the date of this Prospectus.

FPGA means Field Programmable Gate Array.

IC means Integrated Circuit.

IPO means Initial Public Offer of Shares described in Section 2.

Listing Rules means the official listing rules of ASX.

New Shares means the 15 million Shares to be issued by the Company included in the Offer.

Offer means the offer of Shares described in Section 2.

Offer Price means \$2.00 per Share.

PCB means Printed Circuit Board.

PLD means Programmable Logic Device.

Prospectus means this prospectus dated 22 June 1999.

Protel or the Company means Protel International Limited and all its controlled entities.

Sale Shares means the 8.25 million Shares offered for sale by the Vendors under the Offer.

Share Registry means National Registry Services Pty Limited.

Shares means fully paid ordinary shares in the capital of Protel International Limited.

Underwriter means Macquarie Equity Capital Markets Limited.

Vendors means the Existing Shareholders who are selling the Sale Shares under the Offer.

Corporate Directory

Directors

Carl Rooke (Chairman)
Nick Martin (Executive Director)
Aram Mirkazemi (Executive Director)
Kayvan Oboudiyat (Chief Executive Officer)
David Warren (Executive Director)
William Bartee (Non-Executive Director)

Protel Share Information Centre

1800 621 656

Share Registry

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

Corporate Headquarters

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

Financial Adviser to Protel

KPMG Corporate Finance (NSW) Pty Limited
The KPMG Centre
45 Clarence Street
SYDNEY NSW 2000

Underwriter

Macquarie Equity Capital Markets Limited
20 Bond Street
SYDNEY NSW 2000

Investigating Accountant

PricewaterhouseCoopers
580 George Street
SYDNEY NSW 2000

Independent Accountant

PricewaterhouseCoopers Securities Ltd
580 George Street
SYDNEY NSW 2000

Solicitors to Protel

Mallesons Stephen Jaques
Governor Phillip Tower
1 Farrer Place
SYDNEY NSW 2000

PROSPECTUS

PROTEL INTERNATIONAL LIMITED

