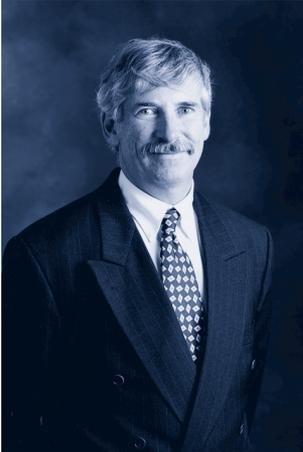


5.1 Board of Directors



Rob Stewart *Chairman* LLB(Hons) BCom MBA (Harvard) Age 50

Rob Stewart brings to Melbourne IT experience in managing organisations in the knowledge management area together with sound strategic planning and corporate governance skills.

Rob retired after 11 years as National Managing Partner of Minter Ellison, one of Australia's leading law firms in June 1999. Prior to that, Rob served for nearly seven years as the Managing Partner of Ellison, Hewison & Whitehead, one of the predecessor firms of Minter Ellison. In this period the firm experienced sustained growth expanding from 13 partners and a total staff of 140 in 1981 to over 170 partners and a total staff of over 1,550 in 1999.

Rob was a non-executive director of Memtec Ltd, an Australian high technology filtration company, from 1988 until 1997 which listed on NASDAQ and then the New York Stock Exchange prior to being taken over by a US company in 1997. Rob also spent five years with Pacific Dunlop from 1976 to 1981 in a variety of general management positions within the Footwear Group.

Rob is a director of the Business/Higher Education Round Table and a member of the Wesley College Council.



Professor Peter Gerrand *Chief Executive Officer* BEng(Hons) MEngSc Age 54

Professor Peter Gerrand has been the CEO of Melbourne IT since its commencement in 1996 and is a Professorial Fellow in telecommunications at The University of Melbourne. Peter created the IT Incubator for eCommerce and Melbourne IT's Domain Name Bureau Service, currently the sixth largest domain name administrator in the world.

Peter has 28 years experience in the telecommunications industry, in Australia and Europe, in both the public and private sectors. Peter held management positions at Telecom Australia (now Telstra) for ten years in research, advanced product development, forward network planning and network strategy for the national network. In 1995, Peter founded ASAC, in collaboration with Ericsson.

Peter was awarded the Charles Todd medal by the Australian Telecommunications Users Group (ATUG) in 1998 for 'outstanding contributions to the telecommunications industry', and was named the ATUG 'Communicator for the Year'. He has been National Chairman of the Telecommunication Society of Australia since 1993, and Editor-in-Chief of the Telecommunication Journal of Australia since 1994.

He is a graduate of The University of Melbourne and Monash University, a Member of the Australian Computing Society, a Fellow of the Institution of Engineers Australia and a Fellow of the Australian Institute of Company Directors.



Dr Colin Adam *Non-Executive Director* BEng(Hons)(Metal) PhD Age 56

Dr Colin Adam is currently a Deputy Chief Executive of Commonwealth Scientific and Industrial Research Organisation (CSIRO) and is responsible for all commercial activities of the organization. He has recently been Chairman of the Preston Group Pty Ltd, a software company started by CSIRO in 1987 and recently sold to the Boeing Company of Seattle. The Preston Group Pty Ltd successfully commercialised aviation scheduling software developed by CSIRO, and distributed to the world's major airlines and airports.

Colin worked in the US from 1978 to 1987 and was Research Director of the Allied-Signal Corporation, New Jersey, before returning to Australia in 1987 as Chief of the CSIRO Division of Materials Science and Technology. Colin has subsequently been a Director of the CSIRO Institute of Industrial Technologies (1998 to 1995) and Deputy Chief Executive since 1996. Colin is also on the board of Ceramic Fuel Cells Ltd.



Professor Iain Morrison *Non-Executive Director* BSc(Hons) PhD Age 51
Professor Iain Morrison is Professor and Head of Information Systems at The University of Melbourne and has been closely involved for over 10 years in the development of the Internet within Australia and in the effective business applications of IT. Iain was elected to the auDA board on 7 October 1999.

From 1990 to 1999 firstly as Registrar-IT and then as Assistant Vice-Chancellor (Information Technology), Iain's responsibilities at The University of Melbourne included IT Policy, Management and Strategic Planning encompassing administration, teaching, research and commercial applications. In the same period Iain was a member, and continues to be a Director, of AARNet, the national Academic and Research Network sponsoring innovative network applications in online program delivery, research and development.

Iain was Chair of the Technical Committee which developed applications specifications and data models for all Australian Universities' functional computer systems and has been a member of Task Forces on Multimedia and Broadband Networking. Iain was a founding Director and Chair of the Victorian Collaborative Multimedia Centre eMerge and is currently a Director of auDA.

Iain serves as advisor and consultant to government and the higher education sector on matters in telecommunications, copyright, online legislation and educational applications of IT and information systems. He currently is a member of education advisory bodies such as Education Network Australia and the Australian IMS Centre.



Dr Stephen Gumley *Non-Executive Director* BE (Hons) GMQ (AGSM) MBA DPhil (Oxon) CPEng Age 43

Dr Stephen Gumley is the Chief Executive Officer of the Preston Group Pty Ltd involved in advanced simulation and scheduling software for the international aviation industry, which was recently acquired by The Boeing Company.

From 1992-97 Steven was CEO of the entrepreneurial Global Lightning Technologies Group (GLT) which had been built to over 120 staff when purchased by USA corporate Erico Inc. GLT exported Australian developed technology and goods and services to over 25 countries in North America, Europe, and Asia. Prior to that Stephen was General Manager of Critec Pty Ltd following several years as Engineering Director.

Stephen has held numerous roles in technology based companies involved in development, commercialisation, internationalisation, and business focus of Australian software, electronics, instrumentation, electrical and mechanical engineering and associated services.

Stephen was a Rhodes Scholar at Oxford University and is a Fellow of the Institution of Engineers Australia and the Institute of Company Directors. He is a member of Council of the University of Tasmania



Kevin Courtney *Non-Executive Director* FCA FICD Age 63

Kevin Courtney brings considerable finance and general business experience to Melbourne IT.

Kevin is a Chartered Accountant and a former regional managing partner of Ernst & Young. Kevin is currently a Member of the Board of Management of the Victorian WorkCover Authority and is Chairman of its Major Hazard Facilities Committee. He is also a director of Inner and Eastern Health Care Network and is Chairman of their Finance Committee and Information Systems Committee. Kevin is also a director of Adacel Technologies Limited, director of two National Australia Bank Group companies and Chairman of the Audit Committee of the National Competition Council.

Previously, Kevin was a Commissioner of the City of Melbourne, director of Regent Management Company, Sunraysia Rural Water Authority, and Connect.com.au, the Internet service provider sold to AAPT Limited.

5.2 Senior Management

The senior management team reporting to the Chief Executive Officer is:



Clive Flory *General Manager – Internet Names World Wide* Age 46
Clive Flory joined Melbourne IT in November 1997 to take charge of the com.au Internet name registration division and build an international business in Internet domain names and related services. Clive has been instrumental in creating and developing the INWW business.

Prior to joining Melbourne IT, Clive was an IT consultant, specialising in aligning information technology processes and infrastructure with business goals. Prior to consulting, Clive spent more than 15 years as a developer, publisher and marketer of software products, exporting these products around the world. He is a founding member of the Australian Software Publishers Association and a member of the Internet Society of Australia.



Tom Dangthanh *Technical Director* BEng, MEng (Elec) Diploma in Business Management Age 49

Tom Dangthanh has joint responsibility with the CEO for the Melbourne IT partnership with Ericsson in ASAC as well as managing other strategic industry relationships for Melbourne IT. Tom is also responsible for quality processes including the recruitment of high-quality technical staff.

Tom has more than 20 years experience in the computing and telecommunications industry in a variety of roles from project management to technical and general management functions. From 1994 to 1996 Tom was Technical Director at Collaborative Information Technology Research Institute (CITRI). Prior to 1994, he was the foundation Director of Telstra's Customised Software Solutions Centre.



John Dowell *General Manager – Online Enterprise Solutions* LLB BEc Age 38
John Dowell has responsibility for OES, focussing on online solutions for business to consumer, business to business e-commerce and leading edge Internet software development projects.

John has over 18 years hands-on experience in all facets of business management, operational management, strategic marketing, IT, new media, and high profile public relation activity. He is also accredited in visual communication and multimedia design. John was formerly Managing Director of Nulab Australia and Nexus Designs, as well as Manager of International Business Development for Leigh Mardon as part of the American Bank Note Corporation, where he specialised in SmartCard and eCommerce applications with the major banking institutions. John is a member of the Australian Internet and Multimedia Industry Association.



Dr Bruce Tonkin *Research Director* BEng (Hons) PhD Age 34
Bruce Tonkin is responsible for managing Melbourne IT's collaborative industry research and university scholarship programs, managing Melbourne IT's network and computing infrastructure, and ensuring that Melbourne IT is kept at the forefront of technology through liaison with leading research organisations in Australia and overseas.

Bruce previously directed the Advanced Network Systems Performance and Applications Group at Monash University in partnership with Telstra and Siemens, and coordinated the operations of the Research Data Network Cooperative Research Centre from 1994 to 1999.

Bruce has wide experience in advanced computing and communications, both in Australia and overseas at AT&T Bell Laboratories in USA. Bruce has advised organizations in industries such as building and construction, natural resource management, telemedicine, automotive, film and television, and education in the application of new telecommunications technologies. Bruce is a director of the Australian Telecommunications Users Group.



Andrew Field *Chief Financial Officer and Company Secretary* BBus(Accounting) BBus(Computing) CPA Age 33

Andrew Field has more than 14 years experience predominantly in the IT industry, and holds degrees in both Accounting and IT. Much of this time has been spent in the financial management of IT companies, with time spent recently as an IT consultant.

Andrew is responsible for the financial management of Melbourne IT. Andrew has significant knowledge and experience in the areas of tax planning, strategic management and performance measurement programs. Andrew is a director and treasurer of the Telecommunications Society of Australia.



Barbara Sutton *Chief Administration Officer* Dip Bus.Admin Dip HR Age 49

Barbara Sutton is responsible for ensuring that the rapidly growing organisation has the infrastructure and the talent it needs to support its objectives. In a company which recognises that people are its most important asset, Barbara's role is to create a supportive environment, effective training and development programs and satisfying career paths.

Prior to joining Melbourne IT, Barbara was Administration/Human Resources Manager at CITRI. Her career has included positions as Executive Assistant to a Senator, Executive Secretary in Local Government Authority and Senior Secretary for a large international construction company.



Dr Erica Roberts *Manager Corporate Relations* PhD BA(Hons) Age 54

Erica Roberts represents the interests of Melbourne IT on national, regional and international bodies involved in the development and administration of the domain name system. Erica was elected to the auDA board on 7 October 1999. Erica is also a director of the Internet Society of Australia.

Erica joined Melbourne IT in September 1999 having previously worked for NOIE where she played a key role in achieving broad consensus on the creation of an industry self-regulatory regime for the development and administration of the .au domain space. Erica participated in negotiations leading up to the creation of the ICANN and the ICANN Government Advisory Committee and assisted in the establishment of a strong Australian presence in relevant regional and global bodies. Erica was the Australian Government representative at meetings of the ICANN Government Advisory Committee.



Guye Engel *Manager Systems Development* BSc Age 38

Guye Engel joined Melbourne IT in August 1999, as Manager Systems Development within INWW. Guye has responsibility for the operation of the com.au as well as the .com, .net and .org Internet name registration systems, as well as the associated technical support and operational infrastructure.

Prior to joining Melbourne IT, Guye had 17 years with the IT division of a leading Australian bank where he gained experience in Project Management and Team Leadership with projects spanning Retail Banking, Finance, Information Management, Strategic Marketing and Infrastructure Services. Throughout his career, Guye has also led a variety of development support and critical application support teams in which he has gained an in depth knowledge of IT disciplines and methodologies.



Dr Ian Smart *Manager Major Projects* PhD MSc Age 50

Dr Ian Smart is Melbourne IT's Manager Major Projects. Ian is currently involved in the identification of and implementation of new business opportunities for Melbourne IT in INWW, OES and a new IT incubator.

Prior to joining Melbourne IT, Ian spent three years with Multimedia Victoria developing and implementing information society, industry development and cultural sector programs such as Skills.net, the Australian Electronic Business Network, the State Library infrastructure project and the National Gallery Multimedia Project. Ian has also had roles with the Coode Island relocation project, the Department of State Development dealing with industry policy, research and technology development programs and industry development initiatives and spent eight years in scientific research.



Tony Hobbins *Research and Development Manager for ASAC* BEng (Elec)(Hons) Age 38

Tony Hobbins is one of the founding members of ASAC. In 1994, Tony joined the Software Engineering Research Centre at CITRI as Senior Research Fellow after a ten year career in Telstra which included a period as project manager in the Customised Software Solutions Centre.

Tony joined ASAC in 1995 and has performed numerous high level technical roles including a six month consultancy with Ericsson Radio Systems for the development of an advanced service platform for mobile applications. Tony is currently responsible for the planning and co-ordination of innovative research and development activities within ASAC with a particular focus on mobile data and technology.

5.3 Employees

As at 26 October 1999, Melbourne IT had 107 employees employed in the following areas:

| | |
|----------------------------|------------|
| Internet Names World Wide | 41 |
| OES | 10 |
| ASAC | 35 |
| Research and Technology | 11 |
| Corporate / Administration | 10 |
| Total | 107 |

In addition, the Company uses the services of two part-time employees.

Melbourne IT has recently entered into three year service contracts with a number of senior management, has an option plan in place for directors and employees and provides attractive employment conditions to assist in the retention of key personnel. The Company recognises that the IT industry has a history of high staff turnover in comparison to other industries and is committed to the retention of employees. A number of staff retention policies have already been implemented and are practised by the Company. Staff retention is a high management priority.

6.1 Introduction

Set out below is a summary of Melbourne IT's historical results for the eight months ended 31 December 1996, the years ended 31 December 1997 and 1998 and directors' financial forecast for the years ending 31 December 1999 and 31 December 2000. The financial information should be read with the assumptions in this Section, the risk factors in Section 7 and other information contained in this Prospectus.

The historical financial data is shown on a normalised adjusted basis. Adjustments have been made to the historical results to eliminate transactions that will not be a continuing part of the business and to ensure consistency of accounting policies throughout the relevant historical periods. No adjustments have been made to the historical results to reflect public company costs for the new entity. The details of these adjustments are set out in the Independent Accountant's Report in Section 8.

Adjusted Historical Results and Directors' Financial Forecasts

| | Adjusted 8 months ended 31 Dec 1996 \$000 | Adjusted 12 months ended 31 Dec 1997 \$000 | Adjusted 12 months ended 31 Dec 1998 \$000 | Adjusted 6 months ended 30 June 1999 \$000 | Forecast 6 months ending 31 Dec 1999 ¹ \$000 | Forecast 12 months ending 31 Dec 1999 \$000 | Forecast 12 months ending 31 Dec 2000 \$000 |
|--------------------------------------|---|--|--|--|---|---|---|
| Revenue | | | | | | | |
| Internet Names | | | | | | | |
| World Wide ² | 412 | 2,288 | 3,390 | 2,923 | 4,962 | 7,885 | 16,905 |
| Professional Services | | | | | | | |
| – ASAC | 742 | 1,779 | 2,519 | 1,638 | 2,038 | 3,676 | 5,056 |
| – OES ³ | – | – | – | 80 | 324 | 404 | 1,892 |
| – Sub-total | 742 | 1,779 | 2,519 | 1,718 | 2,362 | 4,080 | 6,948 |
| Research and Technology | – | – | 78 | 75 | 151 | 226 | 150 |
| Other revenue | 277 | 105 | 368 | 109 | 36 | 145 | – |
| Total Revenue | 1,431 | 4,172 | 6,355 | 4,825 | 7,511 | 12,336 | 24,003 |
| EBIT⁴ | | | | | | | |
| Internet Names | | | | | | | |
| World Wide | 276 | 1,231 | 1,861 | 1,402 | 1,903 | 3,305 | 8,049 |
| Professional Services | | | | | | | |
| – ASAC | 206 | 332 | 449 | 340 | 479 | 819 | 1,440 |
| – OES ³ | – | – | – | (97) | (304) | (401) | (15) |
| Sub-total | 206 | 332 | 449 | 243 | 175 | 418 | 1,425 |
| Research and Technology | – | – | (31) | (125) | (169) | (294) | (782) |
| Corporate Overheads | (636) | (868) | (1,027) | (873) | (1,886) | (2,759) | (4,034) |
| Other | 145 | (194) | (241) | – | – | – | – |
| Total EBIT | (9) | 501 | 1,011 | 647 | 23 | 670 | 4,658 |
| Net Interest Income | 15 | 69 | 51 | 50 | 57 | 107 | 371 |
| Profit Before Tax⁵ | 6 | 570 | 1,062 | 697 | 80 | 777 | 5,029 |
| Taxation ⁶ | | | | | | (89) ⁷ | (1,689) ⁷ |
| NPAT⁶ | | | | | | 688 | 3,340 |
| Cash flow from Operations | | | | | | 4,599⁸ | 10,482⁸ |

Notes

- 1 Based on management accounts to 30 September 1999 and forecasts to 31 December 1999.
- 2 Revenue from domain names is recognised over the term of the registration. Refer Section 2.5.
- 3 OES commenced operations in June 1999.
- 4 Forecast EBIT is after allowing for depreciation and amortisation (12 months ending 31 December 1999, \$341,000 and 12 months ending 31 December 2000, \$914,000).

5 Refer to the Independent Accountant's Report in Section 8 for details of the proforma adjustments.

6 Taxation expense, NPAT and cash flow from operations for historical years are not meaningful due to proforma adjustments.

7 Taxation expense for 1999 has been impacted by a number of permanent differences, which has reduced tax expense. These permanent differences are not expected to recur in 2000 and accordingly tax expense in 2000 is more reflective of the ongoing tax position of the Company.

8 Refer revenue recognition policy, Section 2.5.

6.2 Review of Adjusted Historical Results

A review of Melbourne IT's adjusted historical operations is set out below.

8 Months ended 31 December 1996

- The Company commenced operations in May 1996 and generated revenue of \$1.4 million in the period to 31 December 1996.
- Registration of com.au domain names commenced with a backlog of 2,535 names cleared within 6 weeks.
- Ericsson Australia Pty Ltd launched ASAC and the Company commenced the provision of professional staff to the venture.
- 28 staff were employed by the end of the year.

12 months ended 31 December 1997

- Gross revenue of \$4.2 million delivered 100% growth over an annualised \$2.1 million in 1996 (actual \$1.43 million May-December 1996).
- ASAC won major R&D contracts with Ericsson worldwide and doubled in size.
- The com.au division registered over 23,000 domain names in the period.
- 50 staff were employed at 31 December 1997.

12 months ended 31 December 1998

- The Company achieved revenue of \$6.3 million (adjusted) which represented a 52% increase on the 1997 results.
- More than 60,000 com.au names registered, of which 50,000 were registered by Melbourne IT in its first two years as com.au administrator.
- ASAC won business in Japan, Sweden, Croatia and Tunisia.
- 66 staff were employed at 31 December 1998.

6 months ended 30 June 1999

- Domain name revenue increased by 115% over the same 6 months in the prior year.
- The Company became a gTLD registrar, awarded 'test bed' status by ICANN in April 1999.
- ASAC increased revenue by 40% over the same 6 months in the prior year.
- OES commenced operations in June 1999.

6.3 Review of Forecast Results

The directors' forecasts for the year ending 31 December 1999 are based on actual results for the 9 months to 30 September 1999 and a forecast for the 3 months ending 31 December 1999.

While directors have given due care and attention to the preparations of the forecasts for Melbourne IT, all forecasts are subject to uncertainties and unexpected events, many of which are beyond the control of the directors. Therefore, actual results may differ from the financial forecasts and the differences may be material. Accordingly, the directors cannot give any assurance or guarantee that the forecasts will be achieved.

Some specific risk factors, which may influence the business and may therefore impact on the financial forecasts are discussed in Section 7. Other factors influencing the business are discussed throughout the prospectus. In addition, the analysis headed 'Sensitivity Analysis' in Section 6.5 indicates the sensitivity of the financial forecasts to changes in a number of key assumptions.

The forecasts have been prepared on the basis of a number of assumptions. The main assumptions are discussed below. The forecasts have also been subject to an independent review by Deloitte Touche Tohmatsu, (refer Section 9).

An overview of the forecast period is set out below.

6 months ending 31 December 1999

- Domain name registrations continue to grow and remain the main revenue source.
- In order to accommodate the increased staffing requirement, the Company decided to move to new premises during the forecast period.
- ASAC continues to provide positive returns.
- OES provides initial revenue.

12 months ending 31 December 2000

- The main revenue source for the forecast period will be domain name registrations. In order to provide the level of service required to attract large ISPs, the Company is expanding the development capability and establishing a 24 hour, 7 days a week helpdesk.
- Total staff by the end of 2000 is forecast to be 149.
- Revenue from gTLD registration business per month is expected to exceed that from com.au registration by year end.
- OES business grows in the forecast period and is forecast to generate revenue of \$1.9 million in the 2000 year.
- ASAC will continue to provide positive returns with an expanding level of staff.

6.4 Key Assumptions Underlying the Directors' Forecasts

The directors' forecasts are based on various assumptions, including the following, which should be read in conjunction with the business and investment risks described in Section 7.

General Assumptions

- the Offer is fully subscribed and the proceeds received in December 1999.
- There are no further issues of Shares during the year 2000.
- There is no substantial change in the competitive or regulatory environment which will have a material adverse impact upon Melbourne IT's ability to conduct its existing business or on its operations or trading (refer Section 3.2).
- Melbourne IT's accounting policies remain consistent with previous years, as disclosed in the Independent Accountant's Report in Section 8.
- There are no material changes in general industrial, political or economic conditions in Australia.
- There is no material adverse impact arising from Year 2000 computer problems.
- Other than GST, there is no material changes to Australian taxation laws or the current rate of corporate income tax.
- The Company's contingent liability in relation to grants received does not crystallise.

Specific Assumptions

Revenue Assumptions

com.au

- The standard retail price for com.au is \$125 and the average wholesale price to resellers is \$100 per domain name.
- An average of 7,500 com.au registrations per month in the forecast period is achieved. Melbourne IT is achieving approximately 6,500 new com.au registrations on average in recent months.
- Decrease in com.au registration prices (for direct and resellers) not to exceed 10% over the forecast period.
- Competition to be introduced into the Australian registration market in the last quarter of 2000.
- Market share decrease not to exceed 10% in the forecast period.
- Registration renewals over 60% is achieved in the forecast period. Melbourne IT's current renewal rate is approximately 60%–70%.

gTLD

- The standard retail price for gTLD registration is \$100.
- An average of 12,000 gTLD registrations per month achieved in the forecast period. Melbourne IT achieved approximately 9,900 registrations in October 1999. The increase to an average of 12,000 gTLD registrations over the forecast period represents a compound growth rate of approximately 3% per month.

- gTLD registration price decrease not to exceed 10% in the forecast period (except that in certain contracts for bulk supply, greater discounts may be offered).
- gTLD registrations will be sourced 70% from resellers and 30% direct customers.

ASAC

- An average of 38 staff is contracted to ASAC during the forecast period.
- Average monthly fees of \$11,000 per contractor is achieved.

OES

- OES staff to increase from 10 to 18 over the forecast period.
- Forecast revenue has been prepared on a per employee basis using expected utilisation and recoverability rates.
- An average employee utilisation rate of 62% is achieved.
- Projects currently underway are expected to be completed and fully recovered in the normal course of business.

Other

- Interest Revenue has been forecast based on the forecast cash position of the Company, including surplus funds raised and retained by the Company.

Expense Assumptions

com.au

- The scenario for administration of the com.au registry is not materially different from the expectations of directors (refer Section 3.2.6) and no third party registry costs are paid during 2000.
- Membership fees are paid to auDA during the forecast period.

gTLD

- The cost to the Company of registering a gTLD domain name is USD\$9 per annum until January 15, 2000, and USD\$6 per annum for the remainder of the forecast period.
- Marketing costs for the domain name registration business do not exceed an average of \$50,000 per month for the forecast period.

General

- An additional 40 employees are hired across the business units in the forecast period. Employee costs include salaries and wages, employment on costs and forecast salary increases.
- The current management team is sufficient to manage the expected growth over the forecast period.
- Rental expense is based on the lease agreement at new King Street premises.
- Communications and training costs grow proportionately with the number of employees.
- A general provision has been made to cover potential GST costs non recoverable from customers.

- The annual costs associated with being listed, including directors fees, ASX listing fees, share registry costs and annual report costs to be approximately \$400,000 per annum.
- Software development expenditure is expensed in the month it is incurred.

Other Assumptions

- Dividends are paid in accordance with the intended dividend policy outlined in Section 6.7.
- GST not included in revenue assumptions.
- There are no changes to accounting policies prescribed by the accounting bodies in Australia and the Corporations Law that may have a material effect on the accounts of Melbourne IT.
- The move to 120 King Street, Melbourne will cost \$1.5 million in capital expenditure.
- Other capital expenditure on infrastructure and information systems is forecast to be \$1.8 million.

This is not and does not purport to represent a comprehensive or exhaustive list of assumptions used in the preparation of the Company's forecasts.

6.5 Sensitivity Analysis

The following table summarises the sensitivity of the forecast revenue and EBIT to variations in a number of key assumptions. Care should be taken in interpreting these sensitivities. The sensitivity analysis treats each movement in the variables in isolation from others, whereas in most cases any movements will be interdependent. In practice, however, Melbourne IT management would be expected to respond to any adverse changes in variables by taking action to minimise the net effect on Melbourne IT's earnings.

Changes in Key Assumptions During the Forecast Period

| Impact on | 2000 Revenue | | 2000 EBIT | |
|--|--------------|------|-----------|-------|
| | \$000 | % | \$000 | % |
| Impact of +/-10% in com.au price | +/-735 | +/-3 | +/-735 | +/-16 |
| Impact of +/-10% in gTLD price | +/-695 | +/-3 | +/-695 | +/-15 |
| Impact of +/-20% in volume of com.au registrations | +/-1,231 | +/-5 | +/-1,231 | +/-26 |
| Impact of +/-20% in volume of gTLD registrations | +/-1,275 | +/-5 | +/-805 | +/-17 |
| Impact of +/-10% in Professional Services revenue | +/-695 | +/-3 | +/-695 | +/-15 |
| Impact of +/-10% in overall operating expenses | - | - | +/-1,934 | +/-42 |

6.6 Proforma Balance Sheet

The proforma balance sheet is based on the balance sheet as at 30 June 1999 and has been prepared as if the capital structure following the date of issuance of Shares under the Offer and the Capital Reduction was in effect.

Proforma Balance Sheet as at 30 June 1999

| | \$000 |
|-----------------------------------|---------------|
| Assets | |
| Cash | 8,612 |
| Receivables | 707 |
| Plant & Equipment | 891 |
| Future Income Tax Benefit | 219 |
| Other | 185 |
| Total Assets | 10,614 |
| Liabilities | |
| Creditors | 3,087 |
| Provisions | 577 |
| Total Liabilities | 3,664 |
| Net Assets | 6,950 |
| Shareholders' Equity | |
| Issued Capital | 6,950 |
| Accumulated Profit | - |
| Total Shareholders' Equity | 6,950 |

Note

- 1 Net of Melbourne IT share of issue costs.

6.7 Dividend Policy

Assuming the forecasts are met, the directors expect to declare a final dividend of 3.3 cents per Share for the year ending 31 December 2000 which is expected to be paid in March 2001. This represents a payout ratio of 50% and an annual yield of 1.5% based on the Offer Price. It is unlikely that Melbourne IT will be able to frank fully the dividend for the year ended 31 December 2000, although the Company's current expectation is that this dividend will be franked to more than 75%.

After the year ended 31 December 2000, dividends will reflect a balance between providing shareholders with an appropriate yield on their investment and ensuring adequate working capital will be available to facilitate the expansion of the Company. However, Melbourne IT gives no assurance as to the future level of dividends, if any, or of the franking of dividends. This is because they depend upon, among other factors, Melbourne IT's profits and tax position and general business and financial conditions.

6.8 Directors' Statement on Cash Flow

The directors are of the opinion that, after taking into account the present and proposed future banking facilities and the net proceeds receivable from the issue of new Shares by the Company, the Company will have sufficient working capital for its present requirements.

7 Risk Factors

The business activities of Melbourne IT are subject to risks. There are many factors which may impact on its future performance. Some of these risks can be mitigated by the use of safeguards and appropriate systems and controls, but many are outside the control of Melbourne IT and cannot be mitigated. There are also general risks associated with any investment in shares. There are a number of factors which investors should consider before they make a decision whether or not to apply for Shares. The principal factors include, but are not limited to, the following:

Possible Volatility of Share Price

The trading price of the Shares may be highly volatile and could be subject to wide fluctuations in response to factors such as: actual or anticipated variations in the Company's operating results; announcements of technological innovations, or new services by the Company or its competitors; changes to the regulatory environment for the issue of domain names; changes in financial estimates by securities analysts; conditions or trends in the Internet and online commerce industries; changes in the market valuations of other Internet or online service companies; announcements by the Company or its competitors of significant acquisitions, strategic alliances, joint ventures or capital commitments; additions or departures of key personnel; sales of Shares or other securities of the Company in the open market; and other events or factors, many of which are beyond the Company's control.

Stock markets in general, and the market for Internet-related and technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. The trading prices of many technology companies' stocks are at or near historical highs and reflect valuations substantially above historical levels. There can be no assurance that these trading prices and valuations will be sustained. These broad market and industry factors may materially and adversely affect the market price of the Shares, regardless of the Company's operating performance.

Market fluctuations, as well as general political and economic conditions such as recession or interest rate or currency fluctuations, may also adversely affect the market price of the Shares.

Commencement of Competition in the com.au Registration Business and Increased Competition in the gTLD Business

Competition has recently been introduced in the gTLD registration business and it is likely that competition will be introduced into the Australian domain name market in the second half of 2000. Barriers to entry into these markets are not high and any increase in competition is likely to lead to downward pressure on prices for domain name services provided by Melbourne IT.

While the timing of the introduction of competition to the com.au market is uncertain, competition is unlikely to be introduced until new registrars are approved by NOIE or auDA and the issue of registry management is finalised. This is not expected to occur until the second half of 2000.

The impact of competition on the Melbourne IT com.au domain name business beyond the forecast period cannot be predicted.

Should auDA be approved by NOIE as the au domain administrator, it will likely require the separation of com.au registration and registry functions. There can be no assurance that Melbourne IT will gain authorisation to undertake the separate registry function. It is unlikely that separation of these functions is possible before late 2000. In the event that Melbourne IT does not gain authorisation to undertake the registry function, it would be required to make payment to the provider of registry services.

The impact of such additional payments on the Melbourne IT com.au domain name business beyond the forecast period cannot be predicted.

Attraction and Retention of Key Employees

Melbourne IT's domain names business has grown rapidly since its commencement. Melbourne IT is expecting, during the forecast period, strong growth to continue for its existing businesses, further development of new businesses and expansion of its customer base. This business growth needs to be carefully managed. The Company will need to attract and retain highly qualified management, technical, sales and marketing personnel and continue to implement and improve operational, financial and management information systems in order to effectively manage its expected growth. A loss of a significant number of employees or difficulty recruiting qualified additional employees would negatively impact Melbourne IT's business operations.

Environment of the Digital Economy

The Internet is the fastest growing medium in history. The rapid development of Internet technology has raised concerns over security, reliability, service quality and ease of system interface. In addition, the speed of this evolution has led to an environment that where industry practices and regulations can change dramatically within a short period of time. The Internet is expected to develop further and continues to be a dynamic medium. There can be no assurance that there will not be significant developments in the administration or operation of the Internet, such as an alternate addressing system replacing domain names, that could adversely impact Melbourne IT's businesses, although Melbourne IT is not currently aware of any such developments. Melbourne IT monitors developments in the Internet and its environment, but the dynamic nature of this environment suggests a degree of uncertainty as to the future form and nature of Melbourne IT's businesses.

Reduction in Growth Levels of Online Commerce

The future revenues of Melbourne IT's businesses are to a large extent dependent upon the widespread acceptance and use of the Web and online services as an effective medium of commerce. Rapid growth in the use of and interest in Internet and commercial online services is a recent phenomenon and there can be no assurance that acceptance and use will continue to develop so that a sufficiently broad base of consumers will adopt, and continue to use, online services as a medium of commerce.

Dependence on the Internet Infrastructure

Melbourne IT's businesses are dependent upon the development and maintenance of the Internet Infrastructure, such as a reliable network backbone with the necessary speed, data capacity and security, and timely development of complementary products such as high speed modems, for providing reliable Internet access and services. The Internet has experienced, and is expected to continue to experience, significant growth in the number of users and amount of traffic. There can be no assurance that the Internet Infrastructure will continue to be able to support the demands placed on it by this continued growth or that the performance or reliability of the Web will not be adversely affected.

There can also be no assurance that the commercialisation of the Internet Infrastructure will not lead to a change in its current administrative, regulatory and financial structure.

Uncertain Australian Regulatory Environment

It is not known whether, and if so on what basis, NOIE or auDA will become the licensor of com.au registration rights. While directors believe that an industry self-regulatory body, most probably auDA, is likely to receive the delegated authority from ICANN to regulate the issuing of Authorities for .au domain name registration, there can be no assurance that this will occur.

It is uncertain how NOIE or auDA or any other regulatory body would issue new Authorities for the com.au registration business. In addition, there can be no assurance that new Authority will be issued on terms that are favourable to Melbourne IT.

It is not known whether, and if so on what basis, auDA will require the creation of a separate com.au registry business. The directors believe that registry functions for each .au second level domain are likely to remain with one provider and that Melbourne IT is well placed to provide these services. There can however be no assurance that Melbourne IT will be the supplier of registry services.

The necessity for Melbourne IT to pay additional charges for registry services beyond the forecast period could have a material adverse impact on the Company's business, financial condition and results of operations.

Strategic Relationships

Melbourne IT's ASAC business is dependent on its continued relationship with its existing strategic partner, Ericsson Australia Pty Ltd. There can be no guarantee of the continuity of this relationship or that such a relationship will be successful or that if this relationship did not continue, the Company would be able to find an additional or replacement strategic partner.

Melbourne IT's gTLD business is dependent on growth in the gTLD market and its ability to access this market through strategic relationships with appropriate resellers. Melbourne IT hopes to derive significant benefits, including increased revenues and market awareness from these relationships. There can be no assurance that the Company will generate new strategic relationships to support the growth in the gTLD market. Such a failure, were it to occur, could have a material adverse effect on the Company's business, financial condition and results of operations.

Capacity Constraints and System Interruption

The satisfactory performance, reliability and availability of Melbourne IT's online services and its network infrastructure is critical to attracting and maintaining relationships with customers. System interruptions that result in the unavailability of Melbourne IT's site or slower response times for consumers would reduce the attractiveness of Melbourne IT's online services to consumers. The Company currently has significant capacity in its network infrastructure although continued increase in traffic may require the Company to expand and adapt its network infrastructure.

The Company's operations are vulnerable to interruption by fire, power loss, telecommunications failure and other events beyond the Company's control. Melbourne IT is developing disaster recovery systems including high security offsite back up facilities to mitigate events outside the Company's control.

Failure of the Company's systems could have a material adverse effect on the Company's business, financial condition and results of operations.

Year 2000 Issues

Melbourne IT has developed a plan to address issues relating to the transition to the year 2000. The plan is intended to minimise the impact of the transition to the year 2000 on the Company's businesses. Melbourne IT's operations are also dependent on third party supply of goods and services. The Company cannot guarantee that its planning will be adequate to protect the Company's businesses from disruption. Accordingly, there is a risk that the date change from 1999 to 2000 could have a material adverse effect on the business and financial position of Melbourne IT.

Government Regulation and Legal

Melbourne IT is not currently subject to specific laws or regulations applicable to access to or commerce on the Internet, other than laws and regulations applicable to business generally. However, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as user privacy, pricing, content and quality of products and services, intellectual property rights and information security. Where eCommerce transactions are concerned, risks and claims may eventuate relating to the failure to deliver, errors, fraud, interruptions or delay, which may expose Melbourne IT to legal action.

Technological Change

Information technology is continuing to develop and is subject to rapid change. The Company's success will in part depend on its ability to offer services and have systems that keep pace with continuing changes in technology, evolving industry standards and changing client preferences. There can be no assurance that the Company will be successful in addressing these developments in a timely manner. In addition, there can be no assurance that products or technologies developed by third parties will not render certain of the Company's services non-competitive or obsolete.

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3 November 1999

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The Directors
Melbourne Enterprises International Ltd
4th Floor
Walter Boas Building
The University of Melbourne
Parkville Victoria 3002

Dear Sirs

Independent Accountant's Report

Introduction

This report has been prepared at the request of the directors of Melbourne IT Ltd ('Melbourne IT' or the 'Company') and Melbourne Enterprises International Ltd ('MEIL'), for inclusion in a Prospectus to be registered by Melbourne IT, dated 3 November 1999, in relation to the issue by Melbourne IT of 42,500,000 new fully paid ordinary Shares at an issue price of \$2.20 per Share.

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

Background and Capital Structure

Melbourne IT was incorporated as a proprietary limited company on 22 April 1996, in the name of Melbourne Information Technologies Australia Pty Ltd, by the issue of 350,000 ordinary Shares at \$1.00 each to Melbourne Research Enterprises Ltd. The Shares in Melbourne IT were transferred to MEIL pursuant to an internal corporate reorganisation. Pursuant to this reorganisation, Melbourne IT's previous shareholder, Melbourne Research Enterprises Ltd, ceased to be an operating entity and effective from 1 January 1999, it transferred all of its assets and liabilities to MEIL, including its Shares in Melbourne IT.

Melbourne IT was converted to a public company and changed its name to Melbourne IT Ltd on 20 October 1999.

The Company has been audited in each financial period ended 31 December, from 1996 to 1998, by the Victorian Auditor-General's Office. The Company was audited for the six months ended 30 June 1999 by Ernst & Young. All audit opinions were unqualified.

The liability of Deloitte Touche Tohmatsu, is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

On 22 October 1999 the following resolutions were approved by the Board of Melbourne IT in relation to the capital structure;

- to undertake a Share split which converted the 350,000 ordinary Shares owned by MEIL into 46,590,909 ordinary Shares;
- to issue 42,500,000 new fully paid ordinary Shares at an issue price of \$2.20 per Share to the public;
- to request MEIL, Melbourne IT's sole Shareholder, to approve a capital reduction through the proposed selective cancellation of 39,090,909 Shares owned by MEIL for \$2.20 per Share, which equates to the issue price of the new ordinary Shares being offered pursuant to this Prospectus. This capital reduction is conditional upon the receipt of funds from the issue of new ordinary Shares pursuant to this Prospectus;

The resolutions of MEIL in relation to Melbourne IT's capital reduction were passed by MEIL on 3 November 1999.

Following the above resolutions, the issue of 42,500,000 new fully paid ordinary Shares at \$2.20 per Share in Melbourne IT pursuant to this Prospectus and the completion of the proposed selective cancellation of MEIL Shares, the capital structure of Melbourne IT will be as follows;

| | As at 30 June 1999 | | As at listing date | | |
|---|--------------------|------------|--------------------|------------|-------------------|
| | Number of Shares | % | Number of Shares | % | \$ |
| MEIL | | | | | |
| – Share Split | 350,000 | 100 | 46,590,909 | | 350,000 |
| – Selective cancellation of MEIL Shares | – | – | (39,090,909) | | (86,000,000) |
| Shares held by MEIL | 350,000 | 100 | 7,500,000 | 15 | |
| New Shares held by the Public | – | – | 42,500,000 | 85 | 93,500,000 |
| Shares on Issue on Completion of the Offer | 350,000 | 100 | 50,000,000 | 100 | 7,850,000 |

Basis of Preparation of Our Report

You have requested us to prepare an Independent Accountant's Report to present fairly, in accordance with applicable Australian accounting standards:

- adjusted historical results of Melbourne IT for the eight months ended 31 December 1996, financial years ended 31 December 1997 and 1998, and the 6 months ended 30 June 1999;
- the balance sheet of Melbourne IT as at 30 June 1999;
- the Proforma balance sheet of Melbourne IT as at 30 June 1999 as if the capital raising had occurred at that date; and
- notes to the Proforma balance sheets as at 30 June 1999.

Scope of Our Review

Our review has been conducted in accordance with Auditing Standard AUS 902 – 'Review of Financial Reports'. Our review was limited primarily to enquiries of Company personnel, review of the historical financial information, analytical procedures applied to the financial data, performance of certain limited verification procedures, review of the 30 June 1999 audit workpapers and comparison of consistency in application of accounting standards and policies.

In addition, we have considered adjustments necessarily required to ensure comparability of the reported results of the Company for the eight months ended 31 December 1996, years ended 31 December 1997 and 1998 and six months ended 30 June 1999 in order to restate the historical results on a basis consistent with the Melbourne IT business structure described in this Prospectus.

Our review of the information contained in this report has been of a lesser scope than an examination in accordance with Australian Auditing Standards, the objective of which is to express an opinion regarding the financial statements as a whole. Accordingly, no audit opinion has been expressed.

Statement

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the financial information of Melbourne IT as set out in the Annexure to this report does not present fairly:

- the adjusted historical results of Melbourne IT for the eight months ended 31 December 1996, financial years ended 31 December 1997 and 1998, and the 6 months ended 30 June 1999;
- the balance sheet, and accompanying notes, as at 30 June 1999; and
- the Proforma balance sheet, and accompanying notes as at 30 June 1999 on the basis of the transactions described in Note 2 to the Annexure;

in accordance with applicable accounting standards, other mandatory professional requirements and the accounting policies adopted by Melbourne IT as described in the Annexure.

Subsequent Events

Subsequent to 30 June 1999 and up to the date of this report, nothing has come to our attention that would cause us to believe material transactions or events outside the ordinary course of business have occurred, other than the matters dealt with in this report, which would require comment on, or adjustment to, the information contained in this report, or which would cause the information to be misleading.

Other Matters

Deloitte Touche Tohmatsu consents to the inclusion of this report in the Prospectus in the form and context in which it is included.

Yours faithfully



Deloitte Touche Tohmatsu

Annexure

Summary of the Adjusted Historical Operating Results

| Period Ended | 31 December 8 months 1996 \$ | 31 December 12 months 1997 \$ | 31 December 12 months 1998 \$ | 30 June 6 months 1999 \$ |
|--|---------------------------------------|--|--|-----------------------------------|
| Operating Revenue | 1,431,106 | 4,373,982 | 7,650,096 | 4,873,052 |
| Adjustments (Note 1) Add/(Less) | | | | |
| ii Education Products and Services Business Unit | – | (121,226) | (696,000) | – |
| iii Incubator Business Unit | – | (80,985) | (598,611) | (47,600) |
| Adjusted Operating Revenue | 1,431,106 | 4,171,771 | 6,355,485 | 4,825,452 |
| EBITDA | 58,631 | 148,004 | 578,492 | 687,789 |
| Depreciation & Amortisation Expense | 14,750 | 62,759 | 285,594 | 120,766 |
| EBIT | 43,881 | 85,245 | 292,898 | 567,023 |
| Interest Income | 14,665 | 69,222 | 50,958 | 49,982 |
| Net Profit Before Tax | 58,546 | 154,467 | 343,856 | 617,005 |
| Adjustments (Note 1) Add/(Less) | | | | |
| i Rent Expense | (52,105) | (52,105) | – | – |
| ii Education Products and Services Business Unit | – | 336,384 | 779,059 | – |
| iii Incubator Business Unit | – | 131,326 | (260,680) | 80,177 |
| iv Grant to The University of Melbourne | – | – | 200,000 | – |
| | (52,105) | 415,605 | 718,379 | 80,177 |
| Adjusted Net Profit Before Tax | 6,441 | 570,072 | 1,062,235 | 697,182 |

The above historical results have been extracted from the audited financial statements of Melbourne IT for the relevant periods.

Adjustments have been made to the historical results to eliminate transactions that will not be a continuing part of the business and to ensure consistency of accounting policies throughout the relevant historical periods. No adjustments have been made to the historical results to reflect public company costs for the Company.

Note 1: Adjustments

A summary of the adjustments to the historical results is as follows:

- i Rent for the period April 1996 to June 1997 was waived by The University of Melbourne. An adjustment has been made to incorporate a notional rent expense for that period based on the actual rental charged to Melbourne IT in subsequent years;
- ii During the years ended 31 December 1997 and 1998 Melbourne IT operated a business unit called 'Education Products and Services', devoted to the research and development of a web-based online multimedia learning system. This business unit is not part of the continuing Melbourne IT business and accordingly income and expenditure related to this business unit has been removed from the historical results.

A summary of the adjustments follows:

| Adjustments | 1996 \$ | 1997 \$ | 1998 \$ | 1999 \$ |
|-----------------------|------------|----------------|----------------|------------|
| Income | – | (121,226) | (696,000) | – |
| Expenditure | – | 457,610 | 1,475,059 | – |
| Net Adjustment | – | 336,384 | 779,059 | – |

- iii During the years ended 31 December 1997 and 1998 and the six months ended 30 June 1999, Melbourne IT was involved in an Incubator Program which principally involved the provision of administrative services to start up ventures in the information technology industry. Melbourne IT intends to close its existing Incubator business unit when it moves its principal operations to new offices in King Street, Melbourne in early December 1999.

Accordingly, all income and expenditure related to the Incubator business unit has been removed from the historical operating results.

A summary of the adjustments follows:

| Adjustments | 1996 \$ | 1997 \$ | 1998 \$ | 1999 \$ |
|-----------------------|------------|----------------|------------------|---------------|
| Income | – | (80,985) | (598,611) | (47,600) |
| Expenditure | – | 212,311 | 337,931 | 127,777 |
| Net Adjustment | – | 131,326 | (260,680) | 80,177 |

It should be noted that Melbourne IT is currently bidding to be involved in a new Incubator program that is substantially different to the previous Incubator business unit operated by the company.

- iv During the year ended 31 December 1998 a grant of \$200,000 was provided to The University of Melbourne. As grants of this nature will not be provided to The University of Melbourne in the future, this amount has been removed from the historical operating results.

We note that during the period under review Melbourne IT received certain benefits from The University of Melbourne for nominal consideration. These benefits include the provision of certain accounting and administrative services as required and insurance cover for the directors, property and equipment owned by Melbourne IT.

Following the transactions pursuant to this Prospectus, these benefits will no longer be provided by The University of Melbourne for nominal consideration. As we are unable to reliably quantify the financial impact of the provision of these services to Melbourne IT, no adjustment has been made to the historical results.

Balance Sheet

| | | 30 June 1999 | |
|--------------------------------------|-------------|-------------------------|---------------------------|
| | Note | Actual \$000 | Proforma \$000 |
| Current Assets | | | |
| Cash | 3 | 2,012 | 8,612 |
| Receivables | 4 | 707 | 707 |
| Other | 5 | 1,065 | 185 |
| Total Current Assets | | 3,784 | 9,504 |
| Non-Current Assets | | | |
| Plant and Equipment | 6 | 891 | 891 |
| Future Income Tax Benefit | 7 | 219 | 219 |
| Total Non-Current Assets | | 1,110 | 1,110 |
| Total Assets | | 4,894 | 10,614 |
| Current Liabilities | | | |
| Accounts Payable | 8 | 2,311 | 2,311 |
| Provisions | 9 | 468 | 468 |
| Total Current Liabilities | | 2,779 | 2,779 |
| Non-Current Liabilities | | | |
| Accounts Payable | 8 | 776 | 776 |
| Provisions | 9 | 109 | 109 |
| Total Non-Current Liabilities | | 885 | 885 |
| Total Liabilities | | 3,664 | 3,664 |
| Net Assets | | 1,230 | 6,950 |
| Shareholders' Equity | | | |
| Share Capital | 10 | 350 | 6,950 |
| Retained Earnings | | 880 | — |
| Total Shareholders' Equity | | 1,230 | 6,950 |

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

Notes to the Balance Sheet

1 Basis of Preparation of the Financial Report

The accounts have been prepared using the historical cost convention and in accordance with the applicable Accounting Standards and Urgent Issues Group Consensus Views.

Accounting policies are selected and applied in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby, ensuring that the substance of the underlying transactions and other events is reported.

In addition to the accounting policies prescribed by applicable Accounting Standards and Urgent Issues Group Consensus Views, the following significant accounting policies have been adopted in the preparation and presentation of the financial report.

Summary of Significant Accounting Policies

a Revenue

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The percentage of completion is determined by reference to the extent of services performed to date on the agreement as a percentage of total services to be performed under the agreement.

Where cash has been received for services yet to be performed pursuant to the agreement, the amount has been classified in the Balance Sheet as 'Unearned Revenue – Income in Advance'.

b Recoverable Amount of Non-Current Assets

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds its recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

c Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, and long service leave expected to be settled within 12 months, are measured at their nominal values.

Provisions made in respect of other employee entitlements and long service leave, which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to the reporting date.

d Depreciation

Depreciation is provided on a straight line basis so as to write off the net cost of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is shorter, using the straight line method. The following useful lives are used in the calculation of depreciation:

Plant and Equipment: 3 years
Leasehold Improvements: Over the term of the lease

e Income Tax

Tax effect accounting principles have been adopted whereby income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the provision for deferred income tax and future income tax benefit, as applicable.

Revenue is recognised for tax purposes on the same basis as it is recognised for accounting purposes as disclosed in Note 1 (a) above.

2 Proforma Balance Sheet

The Proforma balance sheet reflects the following transactions and events as if they had occurred as at 30 June 1999;

- 350,000 ordinary Shares, owned by MEIL, being split into 46,590,909 ordinary Shares;
- declaration of a \$900,000 dividend to MEIL immediately prior to the Offer pursuant to this Prospectus. Retained earnings as at 30 June 1999 are \$880,000 and accordingly the Proforma balance sheet has only been adjusted for this amount. The remaining \$20,000 dividend will be paid out from after tax profits earned since 30 June 1999.
- payment of the \$880,000 dividend through partial satisfaction of the receivable owing to Melbourne IT by MEIL of \$1 million as at 30 June 1999. The remaining \$20,000 dividend will be paid through partial satisfaction of the outstanding receivable balance of \$120,000 from MEIL.
- the issue of 42,500,000 new fully paid ordinary Shares at an issue price of \$2.20 per Share pursuant to this Prospectus;
- a selective cancellation of 39,090,909 ordinary Shares owned by MEIL at \$2.20 per Share;
- application of Share proceeds against Melbourne IT's share of the costs associated with listing, estimated to be \$900,000.

The Proforma balance sheet does not reflect the trading of the Company since 30 June 1999.

| | 30 June 1999 | |
|---|--|--------------|
| | Actual | Proforma |
| | \$000 | \$000 |
| 3 Cash | | |
| Current | | |
| Cash invested with | | |
| The University of Melbourne | 1,158 | 1,158 |
| Cash at Bank and on hand | 694 | 7,294 |
| Term Deposit | 160 | 160 |
| | 2,012 | 8,612 |
| 4 Receivables | | |
| Current | | |
| Trade Receivables | 648 | 648 |
| less Provision for Doubtful Debts | (5) | (5) |
| Accrued Income | 64 | 64 |
| | 707 | 707 |
| 5 Other | | |
| Current | | |
| Non Trade Receivable—MEIL | 1,000 | 120 |
| Prepayments | 65 | 65 |
| | 1,065 | 185 |
| Investments | | |
| In addition to the above, Melbourne IT holds investments in the following private entities: | | |
| Blue Tongue Online Pty Ltd | \$200 (2% of the issued Share capital) | |
| AC Unit Trust (Active Concepts) | \$100 (10% of the issued Units) | |
| | | |
| | 30 June 1999 | |
| | Actual | Proforma |
| | \$000 | \$000 |
| 6 Plant and Equipment | | |
| Plant & Equipment: At cost | 867 | 867 |
| Less Accumulated Depreciation | (225) | (225) |
| | 642 | 642 |
| Leasehold Improvements: At cost | 335 | 335 |
| Less Accumulated Amortisation | (86) | (86) |
| | 249 | 249 |
| | 891 | 891 |
| 7 Future Income Tax Benefit | | |
| Timing Differences | 219 | 219 |
| 8 Accounts Payable | | |
| Current | | |
| Trade Creditors | 82 | 82 |
| Sundry Creditors and Accruals | 392 | 392 |
| Unearned Revenue—Income in Advance | 1,774 | 1,774 |
| Deposits | 63 | 63 |
| | 2,311 | 2,311 |
| Non Current | | |
| Unearned Revenue—Income in Advance | 776 | 776 |

| | 30 June 1999 | |
|----------------------------|---------------------|-----------------|
| | Actual | Proforma |
| | \$000 | \$000 |
| 9 Provisions | | |
| Current | | |
| Employee Entitlements | 284 | 284 |
| Income Tax | 184 | 184 |
| | 468 | 468 |
| Non-Current | | |
| Employee entitlements | 109 | 109 |
| 10 Share Capital | | |
| Issued Capital | | |
| 350,000 Ordinary Shares | 350 | – |
| 50,000,000 Ordinary Shares | – | 7,850 |
| Share Issue Costs | – | (900) |
| | 350 | 6,950 |

Subsequent to year end, and included in the Proforma balance sheet, are the following transactions to be undertaken by Melbourne IT;

- a Share split which converted the 350,000 ordinary Shares owned by MEIL into 46,590,909 ordinary Shares;
- the issue of 42,500,000 new ordinary Shares pursuant to this Prospectus; and
- a capital reduction through the selective cancellation of 39,090,909 Shares owned by MEIL for \$2.20 per Share, which equates to the issue price of the new ordinary Shares being offered pursuant to this Prospectus. This capital reduction is conditional upon the receipt of funds from the issue of new ordinary Shares pursuant to this Prospectus.
- the Share issue costs are being shared between Melbourne IT and MEIL, with Melbourne IT's contribution to these costs expected to be \$900,000.

| | 30 June 1999 | |
|---|---------------------|-----------------|
| | Actual | Proforma |
| | \$000 | \$000 |
| 11 Commitments for Expenditure | | |
| Commitments under non-cancellable operating leases | | |
| Not later than 1 year | 247 | 247 |
| Later than 1 year but not later than 2 years | 24 | 24 |
| Later than 2 years but not later than 5 years | 72 | 72 |
| Later than 5 years | 48 | 48 |
| | 391 | 391 |

The non-cancellable operating lease relates to a rental agreement for the Bouverie Street premises (including fit out) occupied by Melbourne IT.

12 Capital Commitments

At June 30 1999 Melbourne IT had committed to expend \$61,340 on capital equipment.

13 Related Party Transactions

Directors

The directors of Melbourne IT during or since the period ended 30 June 1999 are as follows;

| | |
|-----------------------------|---|
| Mr Rob Stewart, Chairman | (appointed 14 September 1999) |
| Professor Peter Gerrand | |
| Professor Iain Morrison | |
| Dr Colin Adam | (appointed 22 April 1999) |
| Dr Stephen Gumley | (appointed 1 October 1999) |
| Mr Kevin Courtney | (appointed 22 October 1999) |
| Mr David Lloyd | (resigned 2 November 1999) |
| Mr Ian Wilson | (resigned 2 November 1999) |
| Professor Francis Larkins | (resigned 2 November 1999) |
| Mr Andrew Michelmore | (appointed 11 June 1999 and resigned 29 October 1999) |

Transactions with Related Parties

- On 22 October 1999 the directors of Melbourne IT approved the issue of 687,000 options to the directors under the Melbourne IT Share Option Plan (refer to Section 10.10 of the Prospectus for details of the plan) as follows;

| | | |
|-------------------------|---------|--|
| Mr Rob Stewart | 69,000 | (34,500 Category A Options 34,500 Category B Options) |
| Professor Peter Gerrand | 480,000 | (120,000 Category A Options 120,000 Category B Options 240,000 Category C Options) |
| Professor Iain Morrison | 34,500 | (17,250 Category A Options 17,250 Category B Options) |
| Dr Colin Adam | 34,500 | (17,250 Category A Options 17,250 Category B Options) |
| Mr Kevin Courtney | 34,500 | (17,250 Category A Options 17,250 Category B Options) |
| Dr Stephen Gumley | 34,500 | (17,250 Category A Options 17,250 Category B Options) |

687,000

- The Company provided an interest free loan of \$1 million in June 1999 to its parent entity MEIL;
- Interest of \$49,982 was received from The University of Melbourne during the period ended 30 June 1999 in relation to cash invested with The University of Melbourne on normal commercial terms;
- During the period ended 30 June 1999, Melbourne IT leased rental premises from The University of Melbourne for \$223,000, which was inclusive of all outgoings and insurance;
- During the period ended 30 June 1999, The University of Melbourne provided certain accounting and payroll services to Melbourne IT for nominal consideration.

14 Segment Information

The Company operates predominantly in the information technology industry and operates only within Australia.

15 Franking Account Balance

The adjusted franking account balance as at 30 June 1999 was \$294,000.

16 Subsequent Events

Subsequent to 30 June 1999 the following arrangements have been entered into;

- Melbourne IT has entered into a lease for premises at 120 King Street, Melbourne. The lease is for a period of five years, with an option to renew for a further five years, and is effective from 1 October 1999. Melbourne IT is expecting to move into these premises in early December 1999. The lease commitment for the first year of the lease is \$344,000 plus outgoings. The total lease commitment over the initial five year period amounts to \$1,870,000 plus outgoings.
- Melbourne IT has entered into various arrangements for the interior design and refurbishment of the newly leased premises at 120 King Street. Melbourne IT estimates that the value of these arrangements will be up to \$1.5 million.
- Subsequent to year end Melbourne IT entered into a Memorandum of Understanding with eSign Australia Pty Ltd ('eSign') to be, along with eSign, the exclusive provider of VeriSign Web Server Certificates for the period 1 October 1999 to 31 December 2000. As part of this agreement Melbourne IT has committed to purchase 4,000 new or renewed VeriSign Web Server Certificates from eSign by 31 December 2000 at a discount to the VeriSign US list price (currently US\$695 for 128k encryption).

17 Contingent Liabilities

- The Company has received grants from State and Commonwealth governments which are subject to certain performance criteria and continuing obligations. If these criteria and obligations are not satisfied there is the possibility that grants received may need to be repaid.

The directors of the Company consider that the Company has satisfied, and is continuing to satisfy, the performance criteria and obligations in relation to grants received and accordingly the directors consider it unlikely that repayments of such grants will be required.

- The Company has pledged the term deposit of \$160,000 (US\$100,000) to guarantee due performance under a registrar licence agreement with Network Solutions Incorporated.

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3 November 1999

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Dear Sirs

Independent Review of the Directors' Forecasts

Introduction

This report has been prepared at the request of the directors of Melbourne IT Ltd ('Melbourne IT') and Melbourne Enterprises International Ltd ('MEIL') for inclusion in a Prospectus to be registered by Melbourne IT, dated 3 November 1999 ('the Prospectus') inviting participation in the issue by Melbourne IT of 42,500,000 new fully paid ordinary Shares at an issue price of \$2.20 per Share.

Scope

We have reviewed the forecasts of Melbourne IT for the six months ending 31 December 1999 and for the year ending 31 December 2000 as set out in Section 6.1 of the Prospectus. The Melbourne IT directors are solely responsible for the preparation and presentation of the forecasts and the information contained in Section 6.1 of the Prospectus, including the assumptions as set out in Section 6.4 of the Prospectus, on which the forecasts are based. We have conducted an independent review of the forecasts in order to express an opinion on them to the directors of Melbourne IT and the directors of MEIL.

Our review of the forecasts has been conducted in accordance with Australian Auditing Standards applicable to review engagements. Our review was limited primarily to enquiries as to the process used in preparing the forecasts and discussions with the management and directors of Melbourne IT of the factors considered in determining the assumptions and the underlying data supporting the assumptions. Our procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the forecasts and the evaluation of accounting policies.

The liability of Deloitte Touche Tohmatsu, is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

These procedures have been undertaken in order to state whether anything has come to our attention which causes us to believe that the directors' assumptions as set out in Section 6.4 of the Prospectus, do not provide a reasonable basis for the preparation of the forecasts, and whether, in all material respects, the forecasts are properly prepared on the basis of the assumptions and are presented fairly in accordance with accounting policies prescribed in Australian accounting standards and on a basis consistent with the accounting policies adopted and disclosed in Section 8 of the Prospectus.

Forecast Information

Investors should be aware of the material risks and uncertainties relating to an investment in Melbourne IT, which are detailed in Section 7 of the Prospectus, and the inherent uncertainty relating to prospective financial information.

The outcome of many of the assumptions which are critical to the performance of Melbourne IT are outside the control of the directors of Melbourne IT.

We emphasise that the achievement of the forecasts is reliant on future events the outcome of which is uncertain. There is, therefore, no certainty that the forecasts will be achieved.

Assumptions relating to the forecasts can be reasonable at the time of its preparation, but can change materially over time.

The sensitivities presented in Section 6.5 of the Prospectus demonstrate the material impact on the forecast of changes in key assumptions. The prospective financial information is therefore only indicative of the level of revenue and earnings which may be achieved.

Opinion

Based on our review:

- nothing has come to our attention which causes us to believe that the assumptions as set out in Section 6.4 of the Prospectus do not provide a reasonable basis for the preparation of the forecasts; and
- the forecasts are:
 - a properly prepared on the basis of the assumptions as set out in Section 6.4 of the Prospectus;
 - b presented in accordance with accounting policies prescribed in Australian Accounting Standards; and
 - c presented fairly on a basis consistent with the accounting policies adopted and disclosed by Melbourne IT.

Actual results are likely to be different from the forecasts since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, we express no opinion as to whether the forecasts will be achieved.

Other

Deloitte Touche Tohmatsu consents to the inclusion of this report in the Prospectus in the form and context which it is included.

Yours faithfully,

Deloitte Touche Tohmatsu



G J McLean
Partner

10.1 Details of Incorporation

Melbourne IT was incorporated in Victoria on 22 April 1996 under the Corporations Law of Victoria. On 20 October 1999, Melbourne IT converted from a proprietary company to a public company and changed its name from Melbourne Information Technologies Australia Pty Ltd to Melbourne IT Ltd.

10.2 Company Tax Status and Balance Date

Melbourne IT will be taxed as a public company. The statutory accounts of Melbourne IT will be made up to 31 December annually. Half yearly accounts will also be prepared.

10.3 Share Capital

At the date of this Prospectus, Melbourne IT has an issued share capital of 46,590,909 Shares, all of which are held by MEIL. The Shares currently held by MEIL were transferred to it pursuant to an internal corporate reorganisation. Pursuant to this reorganisation, Melbourne IT's previous shareholder, Melbourne Research Enterprises Ltd, ceased to be an operating entity and effective from 1 January 1999, it transferred all of its assets and liabilities to MEIL, including its Shares.

A total of 42,500,000 Shares are offered under this Prospectus.

10.4 Rights Attaching to Shares

General

The rights attaching to the Shares offered pursuant to this Prospectus are:

- set out in the Constitution of Melbourne IT, a copy of which is available for inspection at the place and times set out under the heading 'Documents Available for Inspection'; and
- in certain circumstances, regulated by the Corporations Law, the Listing Rules and the general law.

The following is a summary of the principal rights of the holders of ordinary shares in Melbourne IT.

Voting Rights

At a general meeting, subject to minor exceptions, on a show of hands each shareholder present has one vote. On a poll, each shareholder has one vote for each fully paid Share held, and for each other Share held, has a vote in respect of the Share which carries the same proportionate value as the proportion that the amount paid up (or agreed to be considered as paid up) on the total issue price of that Share bears to the total issue price of the Share. In the case of a tied vote either on a show of hands or a poll, the Chairman of the Board has a casting vote.

Dividends

Subject to the rights of, or any restrictions on, the holders of Shares created or raised under any special arrangements as to dividends, dividends are payable on each Share on the basis of the proportion which the amount paid bears to the total amounts paid, agreed to be considered paid or payable.

Issue of Further Shares

The Board may (subject to the Constitution of Melbourne IT, the Listing Rules and the Corporations Law) issue additional Shares or grant options over Shares at the Board's discretion.

Variation of Class Rights

The procedure set out in sub-section 246B(2) of the Corporations Law must be followed for any variation of rights attached to the Shares. Under that sub-section, with the consent in writing of the holders of three quarters of the issued Shares in the particular class, or the sanction of a special resolution passed at a meeting of the holders of the Shares in that class, the rights attached to the Shares may be varied or abrogated.

In either case, the holders of not less than 10% of the issued Shares of the class whose rights have been varied may apply to a court of competent jurisdiction to exercise its discretion to set aside such variation or abrogation.

Transfer of Shares

The Shares are transferable by:

- a written transfer in the usual form or in any form the Board may prescribe or in a particular case accept, being delivered to Melbourne IT;
- a proper SCH transfer, which is to be in the form required or permitted by the Corporations Law or the SCH Business Rules; or
- any other electronic system established or recognised by the Listing Rules in which Melbourne IT participates in accordance with the rules of that system.

The Board may refuse to register the transfer of Shares in the following circumstances:

- if the registration of the transfer would infringe any applicable law or the Listing Rules;
- if the transfer concerns Shares over which Melbourne IT has a lien or which are subject to forfeiture; or
- if permitted to do so under the Listing Rules.

General Meeting and Notices

Each shareholder is entitled to receive reasonable notice of, attend and vote at general meetings of Melbourne IT and to receive all notices, accounts and other documents required to be sent to shareholders under the Constitution of Melbourne IT or the Corporations Law.

Winding Up

If Melbourne IT is wound up, the liquidator may divide among the shareholders in specie or in kind any part of Melbourne IT's assets. The division may be carried out as the liquidator thinks fit, subject to the right of any shareholder prejudiced by the division to dissent. Any dissenting shareholder has ancillary rights as if the determination made by the liquidator were a special resolution passed under the Corporations Law relating to the transfer of Melbourne IT's assets by a liquidator in a voluntary winding up.

Partial Takeovers

The Constitution of Melbourne IT contains provisions regulating partial takeover offers for Shares as permitted by Division 8 of Part 6.3 of the Corporations Law. These provisions will cease to apply unless renewed within three years by shareholders in general meeting.

Directors

The Constitution of Melbourne IT currently provides that the minimum number of directors is three and the maximum number is ten. Questions arising at a meeting of directors will be decided by a majority of the votes of the directors present at the meeting and entitled to vote on the matter. In the case of a tied vote, the Chairman of the Board has a second or casting vote.

10.5 Material Contracts

Underwriting Agreement

Pursuant to an Underwriting Agreement dated 3 November 1999 between J B Were & Son (the Underwriter) and Melbourne IT, the Underwriter has agreed to fully underwrite the issue of the Shares offered by the Prospectus.

Underwriting Commission and Expenses

MEIL will pay to the Underwriter an underwriting commission of \$2,666,000, or approximately 92% of the total underwriting commission. Melbourne IT will pay to the Underwriter an underwriting commission of \$232,500, or approximately 8% of the total underwriting commission. The total underwriting commission will be 3.1% of the total capital raised under the Offer.

In addition, the Underwriter will be reimbursed by Melbourne IT for reasonable out of pocket expenses and legal fees relating to the Offer, to a maximum of \$45,000. If for any reason the Offer does not proceed or the Underwriter terminates or withdraws from the Underwriting Agreement, neither MEIL nor Melbourne IT will be obliged to pay the management fee or underwriting commission but Melbourne IT will pay the Underwriter the reasonable out of pocket expenses, to a maximum of \$45,000, which have been incurred by the Underwriter in connection with the issue of Shares pursuant to the Offer.

Termination of the Underwriting Agreement

The Underwriter may withdraw from the Agreement without cost or liability (but only after consultation between the Underwriter and Melbourne IT), at any time after one or more of the following occur prior to Completion:

- a the Prospectus is not lodged with ASIC on or before 8 November 1999 (or such later date agreed in writing by the Underwriter) or the Prospectus is not registered by ASIC on or before 24 November 1999 (or such later date agreed in writing by the Underwriter);
- b there is an outbreak of hostilities (whether war has been declared or not) not presently existing, or an escalation in existing hostilities occurs (other than hostilities currently occurring in Yugoslavia and East Timor), involving one or more of Australia, New Zealand, the United Kingdom, Germany, the USA, Japan, Indonesia or the People's Republic of China which, in the reasonable opinion of the Underwriter has, or is reasonably likely to have, a material adverse effect on the issue of shares;
- c the introduction of legislation into the Parliament of the Commonwealth of Australia or any State or Territory of Australia, the public announcement of prospective legislation or policy by the Federal or any State or Territory Government or the adoption by ASIC, its delegates, or the Reserve Bank of Australia of any regulations or policy which, in the reasonable opinion of the Underwriter has, or is reasonably likely to have, a material adverse effect on the issue or could create a potential liability of the Underwriter in respect of the issue;
- d Melbourne IT is in breach of any of the material terms and conditions of the Underwriting Agreement (including but not limited to any representation or warranty made or given by Melbourne IT proving to be untrue or incorrect) other than with the written consent of the Underwriter, and such breach is not rectified within 5 business days of receiving notice from the Underwriter;
- e after the signing of the Prospectus, there is any material adverse change, or development involving a prospective material adverse change in the condition or financial or trading position of Melbourne IT (including but not limited to an administrator, trustee, receiver and manager, controller or similar official being appointed over any of the assets or undertaking of Melbourne IT);
- f the Underwriter reasonably forms the opinion that there is a material omission from, or a material statement which is, or has become, false or misleading in the Prospectus or any person, other than the Underwriter, who has previously consented to be named in the Prospectus withdraws that consent where such withdrawal has or is reasonably likely to have a material adverse effect on the issues;
- g the Underwriter reasonably forms the view that a supplementary or replacement Prospectus must be lodged with ASIC under Section 1023B(2) or Section 1024(2) of the Corporations Law and Melbourne IT does not lodge a supplementary or a replacement Prospectus (as the case may be) in the form and content and within the time reasonably required by the Underwriter;
- h without the prior consent of the Underwriter (which shall not be unreasonably withheld), any of the material contracts summarised in the Prospectus are terminated or rescinded, breached, altered or amended in a material respect or found to be void or voidable;

- i Melbourne IT alters its share capital (other than in the Capital Reduction) or its constitution in any material respect without the prior consent of the Underwriter (which shall not be unreasonably withheld);
 - j the ASX makes a decision (whether or not by way of an official statement) that official quotation of all of the underwritten shares will not be granted by the ASX or Melbourne IT's application for quotation of the underwritten shares is not granted by the ASX before 31 December 1999, or any such grant is subsequently revoked or withdrawn by the ASX, in each case other than due to a failure by the Underwriter to procure sufficient valid applications in respect of the underwritten shares to satisfy the requirements of the ASX that there are at least 500 allottees and transferees of the underwritten shares each with a parcel of shares in Melbourne IT having a value of at least \$2000;
 - k Melbourne IT seeks the approval of its shareholders under Section 260B of the Corporations Law, without the prior written consent of the Underwriter;
 - l any of the following occurs:
 - i ASIC applies for an order under Section 1004 of the Corporations Law in relation to the Prospectus and the application is not dismissed or withdrawn before the closing date;
 - ii a person gives a notice under Section 10.23A(1)(b) of the Corporations Law in relation to the Prospectus and any deficiency in the Prospectus that is described in that notice is not corrected to the reasonable satisfaction of the Underwriter before the closing date by the lodgment of a supplementary or replacement Prospectus under Section 1023B(2) or Section 1024(2) of the Corporations Law; or
 - iii ASIC gives notice of the intention to hold a hearing in relation to the Prospectus under Section 1033(3) or makes an interim order under 1033(4) of the Corporations Law and the reasons that ASIC took such action are not resolved to the Underwriter's reasonable satisfaction within 5 business days of the giving of such notice or the making of such interim Order;
 - m a director of Melbourne IT is charged with an indictable offence relating to a financial or corporate matter; or
 - n Melbourne IT charges or agrees to charge, the whole, or a substantial part of its business or property.
- a any non compliance by Melbourne IT, its officers or employees in any material respect with any applicable law in relation to the issue or the Prospectus;
 - b any announcement, advertising, publicity or other promotion made, authorised or issued by Melbourne IT in relation to the issue or the Prospectus or made or issued by the Underwriter to the extent it is made or issued in reliance on the Prospectus or information provided by Melbourne IT;
 - c any breach or failure by Melbourne IT to observe any of the terms and conditions of the Underwriting Agreement;
 - d any review, inquiry or investigation undertaken by ASIC, ASX or other regulatory body or government agency in relation to Melbourne IT or the Prospectus, except to the extent that the Losses constitute a penalty or fine which the Indemnified is required to pay for any contravention of the Corporations Law or are determined by a Court of Competent Jurisdiction to be incurred as a result of fraud, wilful default or negligence of any of the Indemnified.

Contractual Contribution

- a If for any reason the indemnity described above is unavailable or insufficient to hold harmless the Indemnified against any Losses against which the Indemnified is to be indemnified (other than as a result of the operation of the exception to the indemnity set out above), then Melbourne IT agrees to contribute to the relevant loss in accordance with the provisions of the Agreement, in all cases to the maximum extent allowable by law;
- b the relative proportional contribution of Melbourne IT and the Indemnified in relation to the relevant Loss is to be agreed by Melbourne IT and the Indemnified (and failing agreement as determined by a Court of competent jurisdiction) having regard to the participation in, instigation of or other involvement of Melbourne IT and the Indemnified (in relation to the proportional contribution of the Indemnified) in the act complained of. Regard is to be had to the relevant intent, knowledge, access to information and opportunity of Melbourne IT and the Indemnified. Melbourne IT agrees with the Indemnified that in no event will the Indemnified collectively be required to contribute to any claim, proceeding, cost or expense an aggregate amount that exceeds the total commission and fees actually paid to the Underwriter pursuant to the Agreement.

Melbourne IT has warranted to the Underwriter that no stamp duty will be payable on the issue of the Shares pursuant to the Offer.

Contracts Granting Authority in respect of Domain Name Registrations

- i **gTLDs**
The following Agreements govern the arrangements pursuant to which Melbourne IT has been granted the Authority to register second level domain names (SLD) within the gTLDs of .com, .net and org:

Registrar Accreditation Agreement

Pursuant to this Agreement dated 23 April 1999 between Melbourne IT and ICANN, Melbourne IT was granted a non-exclusive worldwide licence to state during the term of the Agreement that it is accredited by ICANN as a registrar in the .com, .net and .org gTLDs.

Terms and Conditions

As part of its registration of all second level domain registrations in the .com, .net and .org TLD's, Melbourne IT is to place in the registry operated by Network Solutions, Inc (NSI) (or any successor registry administrator) various data elements concerning SLD registrations.

Melbourne IT is not to activate any SLD registration unless it is satisfied that it has received payment of its registration fee and it is to register SLD's to SLD holders only for a fixed period. Melbourne IT is not permitted to insert or renew any SLD name in any registry for which it is accredited in a manner contrary to an ICANN adopted policy stating a list or specification of excluded SLD names that is in effect at the time of insertion or renewal.

Fees

As a condition of accreditation, Melbourne IT is to pay accreditation fees to ICANN which consist of fixed and variable components. The fixed component for the initial one year term of the Agreement is US\$5,000. The variable component is based on the number and term of the SLD registrations inserted or renewed in the .com, .net and .org registries by Melbourne IT after 1 July 1999 and is payable monthly in arrears. The fee charged by ICANN for each year of an SLD registration may not exceed US\$1.00

Term

The Agreement is for an initial term of one year (unless sooner terminated as a result of the occurrence of a termination event specified in the Agreement). If Melbourne IT seeks to continue its accreditation it may apply for a renewed accreditation and will be entitled to renewal provided it meets the accreditation requirements then in effect.

Limitation of Liability

ICANN's aggregate monetary liability for violations of the Agreement will not exceed the amount of accreditation fees paid by Melbourne IT to ICANN under the Agreement. Melbourne IT's monetary liability to ICANN for violations under the Agreement is limited to accreditation fees owing to ICANN under the Agreement. In no event shall either party be liable for special, indirect, incidental, punitive, exemplary or consequential damages for any violations of the Agreement.

Supplemental Test Bed Participation Agreement

This Agreement was entered into by Melbourne IT and ICANN in conjunction with the Registrar Accreditation Agreement.

Terms and Conditions

Pursuant to this Agreement, (which incorporates all terms and conditions of the Registrar Accreditation Agreement), Melbourne IT agrees to participate in the Testbed Registrar Program, which is the program in which five registrars accredited by ICANN are to act as registrars for the .com, .net and .org gTLD's during the testbed period (described as Phase 1 in Amendment 11 to the Cooperative Agreement between the US Government and NSI), unless its accreditation is terminated during this period.

During the testbed period, Melbourne IT is to provide enhanced technical and engineering support to interface with NSI and to collaborate closely with NSI's registry administration operation and other testbed registrar program participants. Melbourne IT is obliged to advise ICANN of any significant problems it encounters in connection with the 'test bed' register program.

Registrar Licence and Agreement

Once Melbourne IT became ICANN accredited to provide Internet domain name registration services within the .com, .org and .net gTLD's, Melbourne IT entered into a Registrar Licence and Agreement with NSI. In this Agreement, NSI grants Melbourne IT access to the multiple registrar system (the System) developed and operated by NSI.

Terms and Conditions

Pursuant to the Agreement, NSI agrees to provide Melbourne IT with a non-exclusive, non-transferable worldwide limited licence to access to the System enabling it to transmit domain name registration information in the .com, .org and .net gTLD's according to the protocol developed by NSI and known as the Registry Registrar Protocol (RRP). Melbourne IT is responsible for providing customer service, billing and technical support and customer interface to accept orders.

Melbourne IT agrees to develop and employ in its domain name registration business all necessary technology and restrictions to ensure that its connection to the System and its transactions with SLD holders and prospective customers are secure. It agrees to employ in its domain name registration business, NSI's Registry domain name look up capability to determine if a requested domain name is available or currently unavailable for registration. Melbourne IT further agrees to comply with all other reasonable terms or conditions established from time to time to ensure sound operation of the System by NSI as Registry in a non-arbitrary manner and applicable to all registrars.

Melbourne IT provided to NSI a performance bond of US\$100,000. Under the performance bond, Melbourne IT will perform all the undertakings, covenants, terms and conditions of the Agreement during the initial term and any renewal terms and shall indemnify and hold NSI and its employees, directors, officers, representatives, agents and affiliates harmless from all costs and damages which they may suffer by reason of Melbourne IT's failure to perform.

Fees

Melbourne IT is to pay NSI, at the completion of the 'test bed' period, a non-refundable one time fee of US\$10,000.

During the term of the Agreement, it agrees to pay NSI the non-refundable amounts of US\$18.00 for each initial two year domain name registration and US\$9.00 for each one year domain name re-registration registered by it through the System.

Term

The Agreement (unless sooner terminated with reference to termination events specified in the Agreement) applies through to completion of Phase 1 of the Cooperative Agreement between NSI and the US Department of Commerce (the Initial Term). Upon conclusion of the Initial Term, provisions of the Agreement (excluding the amounts for registration fees) will automatically renew for successive one year renewal terms until the Agreement has been terminated, the Registrar elects not to renew or NSI ceases to operate as the Registry.

Limitation of Liability

NSI is not liable to the Registrar for any special, indirect, incidental, punitive, exemplary or consequential damages, or any damages resulting from loss of profits, arising out of or in connection with the Agreement, even if NSI has been advised of the possibility of such damages.

Representations and Warranties

NSI expressly disclaims all warranties and/or conditions (express or implied) including but not limited to, the implied warranties and conditions of merchantability and fitness for a particular purpose and non-infringement of third parties rights. NSI does not warrant that the functions contained in the products or other services provided by NSI will meet Melbourne IT's requirements or that the operation will be uninterrupted or error free or that defects will be corrected. If the product or services are defective, Melbourne IT assumes the entire cost of all necessary servicing, repair or correction.

Melbourne IT agrees to indemnify, defend and hold harmless NSI and its employees, directors, agents, officers, representatives and affiliates against any claim, suit, action or other proceeding brought against NSI (or any affiliate) based on or arising from any claim or alleged claim relating to:

- a any product or service of Melbourne IT;
- b any agreement with any SLD holder of Melbourne IT; or
- c Melbourne IT's domain name registration business.

ii Second Level Domain – com.au

The following agreements govern the arrangements pursuant to which Melbourne IT has been delegated the Authority to register third level domain names within the second level domain of com.au:

Letter from Jon Postel Confirming Elz Authority

Mr Robert Elz's authority over the .au ccTLD was confirmed in a letter dated 16 August 1995 from Mr Jon Postel of IANA to Professor Peter Thorne at the Department of Computer Science at The University of Melbourne. This letter certifies that Mr Elz is the delegated authority for the .au ccTLD.

Letter Delegating Authority to Melbourne IT

Melbourne IT subsequently derived its Authority to administer the com.au SLD from a letter provided by Mr Elz to Melbourne IT dated 16 September 1996. In this letter, Mr Elz grants a non-exclusive delegation of the administration of the com.au SLD for an initial period of 5 years from 8 October 1996, which may be renewed thereafter according to the renewal policies in force at the time.

Standard Form Contracts with Resellers

Melbourne IT, through the INWWW division has entered into contracts with a range of agents/resellers in relation to both the com.au and .com domain name registration businesses of Melbourne IT. These contracts are expressed in standard form but have been updated and revised over time as the businesses have developed. The following summary is an example of the provisions contained in a recent standard form reseller agreement:

Authorised Reseller Agreement - Australian Version 2

This Agreement was executed on 19 August 1999 between Melbourne IT and Net Registry Pty Ltd (A R).

Nature of Agreement

Melbourne IT has established a program whereby authorised resellers may access its Bureau, Internet Names Australia (INA) to register com.au SLD's and gTLD's at different wholesale rates depending on the category level within which the reseller falls. A R has been accepted as a participant in the program and has agreed to participate in the program on the terms and conditions in the Agreement.

Payment

A R has deposited a minimum upfront payment with the Company for access to the program at the entry level for Authorised Resellers. A R may pay further amounts into the Company's reseller account at any time in the manner prescribed by INA. As registration or renewal applications by A R are approved by INA, INA will withdraw from the account the applicable charge.

INA has established a schedule of category levels for the fees for processing domain names applications. Entry into higher category levels is dependent on achieving a pre-determined number of cumulative registrations.

The charge to A R for each registration or renewal is the amount applicable from time to time to the category level which A R has then attained. INA will determine A R's initial Category level. INA may review the registration performance of A R on an annual basis, and may after such review and at INA's sole discretion, re-allocate A R to a different Category level.

A R is responsible for the fees with respect to each registration made by A R notwithstanding that A R acts as an agent for its customers. Failure to pay registration or renewal fees as and when they fall due constitutes a material breach of the Agreement. No refund will be made once payment has been made for a registration or renewal application.

As the Program is a wholesaling arrangement, the fees charged by A R to its customers are at the sole discretion of A R.

Terms and Conditions

The terms and conditions applicable to the program and to A R as at the commencement of the Agreement are contained in the com.au Domain Name Licence and the gTLD Domain Name Registration Agreement Terms and Conditions (each summarised below).

Undertakings

A R covenants with INA to indemnify and hold harmless Melbourne IT (and its officers, employees and agents) from and against all liability to any third parties (including customers of A R) and associated costs in defending any action, claim, proceeding or demand by a third party to the extent to which liability or the claim arises from or in connection with access to the program by A R or its customers under the Agreement and from and against all liability, loss or damage incurred by it or them as a result of the negligence, wilful misconduct or breach or failure by A R to perform its obligations in the Agreement.

Standard Form Contracts with Direct Customers

Melbourne IT also contracts directly with retail customers for com.au and .com domain names. These customers register directly through INWW by using INWW's website. The documents described below govern the relationship between Melbourne IT and its direct customers for com.au and .com domain name registrations:

Terms and Conditions for a com.au Domain Name Licence

The parties to the Agreement are the Applicant for a com.au Domain Name Licence and INA.

Nature of Contract

The terms and conditions, together with the Rules in the most recent com.au Domain Name Allocation Policy constitute the entire agreement between INA and the Applicant for the registration of the Domain Name on the com.au listing service.

Term

The initial licence period for use of the domain name on their listing service is two years from the date of the successful application for registration.

The licence may be reviewed indefinitely for periods of one or two years, on payment of renewal fees applicable from time to time, and subject to the then current com.au Domain Name allocation policy and the then current INA pricing structure.

Undertakings

The Applicant must:

- a obtain the consent of individuals whose personal data is to be publicly listed in the AUNIC registry as part of the Domain Name Application;
- b pay the registration fee to INA within 21 days after the issue of the INA invoice;
- c notify INA of any change to its registered details; and
- d notify INA of any actual or threatened proceedings brought in respect of the name used as a Domain Name whether by or against the Applicant.

INA will:

- a consider whether to accept or reject the application in accordance with the criteria in the com.au Domain Name Allocation Policy in force at the time of the application; and
- b (if the application is accepted) enter the domain name delegation details (if any) in to the com.au zone file, and send notice to AUNIC to list the Domain Name and upon receipt of fee, issue a Domain Name Certificate.

Conditions

There is no guarantee provided by INA that a domain name applied for will be registered and registration is not effective until INA receives all application fees. INA may cancel the registration or suspend the delegation of a domain name in exceptional circumstances by notice in writing to the Applicant or agent.

INA does not accept any responsibility for the registration or use of any com.au domain name and, in particular, for any conflict with a trade mark (registered or unregistered), or with rights to names in other context. A domain name certificate is not evidence of ownership of the name used as a domain name.

INA does not accept any responsibility for the performance of the AUNIC registry or the primary domain name server.

All conditions and warranties that may be implied (by law or as a result of previous negotiations) in the contract between INA and the Applicant are excluded to the extent permitted by law. In no circumstances will INA be liable for any loss of profit, business or anticipated savings by the Applicant.

The Applicant warrants to INA that the details submitted by the Applicant (or their agent) are true and correct and that any future additions or alterations will be true and correct.

The Applicant warrants to INA that neither the registration of the domain name nor the manner in which it is used (directly or indirectly) infringes on the legal rights of a third party.

Warranties and Indemnities

The Applicant indemnifies INA against any claim that the registration of the domain name (or the manner in which it is directly or indirectly used) infringes the legal rights of any third party (except for claims arising from INA's negligence or breach of the terms of the contract); and indemnifies INA against the costs and expenses incurred in dealing with such a claim.

gTLD Domain Name Registration Agreement

The Agreement is submitted by the Registrant to Melbourne IT for the purpose of registering a gTLD domain name on the Internet. If the Registration Agreement is accepted by Melbourne IT, the Registrant agrees to be bound by the terms and conditions of the Registration Agreement.

Payment

The registration fee (\$110) is payable with the application. Registration is not effective until the registration fee has been paid and cleared into the account of Melbourne IT. All fees are non-refundable.

Term

Registration is for a period of two years and is renewable annually thereafter on payment of the then current renewal fee.

Warranties

The Registrant warrants that all information provided to Melbourne IT in its application is accurate and reliable.

The Registrant warrants that, to the best of the Registrant's knowledge and belief, neither the registration of the domain name nor the manner in which it is directly or indirectly used infringes the legal rights of a third party.

The Registrant agrees that registration of a domain name grants no legal rights to the name, nor does it confer immunity from objection to either the registration or use of the domain name.

Limitation of Liability

The Registrant agrees that neither Melbourne IT or NSI has any liability to the Registrant for any loss the Registrant may occur in connection with INA's processing of the Registration Agreement, or the processing of any authorised modification to the domain names record during the covered period, or the failure by the Registrant's Agent to pay either the registration or renewal fee, or as a result of the application of the provisions of Melbourne IT's current Dispute Policy.

Indemnity

The Registrant agrees to indemnify, keep indemnified and hold both Melbourne IT and NSI (or other registry administrator), their directors, officers, employees and agents harmless from and against all and any claims, damages, liabilities, costs and expenses (including reasonable legal fees and expenses) arising out of or relating to the Registrant's domain name registration or to the use of the domain name.

ASAC Agreement

Parties

Ericsson Australia Pty Ltd (Ericsson) and through their unincorporated association formed under the name of the Collaborative Information Technology Research Institute (CITRI), the Melbourne University and RMIT. Note that the CITRI arrangement has since been disbanded and the Agreement was transferred to The University of Melbourne with the establishment of Melbourne IT (further references to CITRI in the summary of the ASAC agreement set out below relate to The University of Melbourne).

Nature of Agreement

In effect from 3 February 1995 the parties agreed to constitute themselves in an unincorporated collaborative venture to be known as ASAC.

The parties agree that the rights, duties, obligations and liabilities of the parties shall be several and that the relationship between the parties is only one of collaborative research and development and is limited to carrying out the research, development and training activities of ASAC as prepared and approved by the ASAC Steering Committee (the Activities).

The objectives of ASAC are to provide technological support to Ericsson in its endeavours to position itself with its major customers as a value adding supplier that can respond quickly to new business opportunities, through carrying out innovative collaborative research and development in advanced telecommunication services; to support Ericsson in accommodating Telstra's intelligent networks business requirement; and to gain recognition for ASAC as a regional intelligence networks competence centre for service innovation and development (collectively the Objectives).

Term

The parties agreed to operate ASAC from 3 February 1995 for an initial period of five years (the Initial Term). At the end of the Initial Term (and subject to determination provisions) the parties may decide to extend the application of the Agreement for further periods of time, not exceeding two years on each succeeding occasion. The Initial Term has been extended to 3 August 2000.

Funding

Funding for ASAC will be by way of the provision of:

- i cash contribution;
- ii non-cash resources of any description contributed by a party to ASAC (In-Kind Resources); and
- iii the servants, agents, officers and or other representatives of a party contributed by that party to ASAC as part of that party's annual contribution to ASAC (Staffing Resources).

In the case of Ericsson, funding will be by way of providing the Ericsson Annual Contribution which is comprised of the following:

- i the agreed outgoings (including the rental fee, outgoings nominally levied by The University of Melbourne in relation to premises under its effective control, and metered outgoings levied by any utility having the responsibility for providing services to the ASAC premises);
- ii the Ericsson Cash Contribution (meaning certain minimum annual cash contributions to CITRI and annual cash contributions to reimburse CITRI for agreed CITRI expenses); and
- iii the In-Kind Resources and Staffing Resources equal to 50% of ASAC's budgeted staffing resource requirements, contributed by Ericsson to ASAC (not including any intellectual property).

In the case of CITRI, funding will be by way of providing the CITRI Annual Contribution (meaning the In-Kind Resources and Staffing Resources equal to 50% of ASAC's budgeted staffing resource requirements, contributed by CITRI to ASAC (not including any intellectual property).

Management

The management structure of ASAC shall consist of:

- a the ASAC Steering Committee (comprised of four Ericsson appointed representatives and two CITRI appointed representatives);
- b the ASAC General Manager, reporting in that capacity to the ASAC Steering Committee; and
- c such other levels of management as the ASAC Steering Committee deems appropriate for the efficient management of ASAC.
- d The parties may, at any time, by written agreement, agree to vary the structure and membership of the ASAC Steering Committee.

Ownership of ASAC Intellectual Property

ASAC intellectual property (meaning intellectual property developed pursuant to the Activities) is in the sole ownership of Ericsson and when it is created or comes into existence.

At the cost and expense of Ericsson, CITRI must ensure that its employees and other persons under the control of CITRI who have been involved in the creation of ASAC intellectual property, sign all documents necessary to assign and transfer or register the ownership of Ericsson in all ASAC intellectual property.

Ericsson grants to CITRI, a perpetual royalty fee right and licence to use ASAC intellectual property for its own internal research and development purposes.

All new intellectual property generated by CITRI resulting from the right and licence to use ASAC intellectual property is, in the sole ownership of CITRI and is called the CITRI Intellectual Property. CITRI must not sell, licence or grant other rights to use or commercialise CITRI intellectual property which is in the field of telecommunications without first offering to Ericsson the right to take up the sale, licence or other right to commercialise such CITRI intellectual property on the same terms and conditions that the sale, licence or right is proposed to be offered by CITRI to third parties.

eSign Australia Pty Ltd – Memorandum of Understanding

Pursuant to a Memorandum of Understanding accepted by Melbourne IT on 28 September 1999, eSign Australia Pty Ltd (eSign) agreed to appoint Melbourne IT as an eSign Channel Partner. As a result, Melbourne IT will have the ability to provide verification services for VeriSign Web Server Certificates (Certificates) to organisations and companies registered in Australia. The period of the agreement is for two years commencing from 1 October 1999. Melbourne IT will be an exclusive provider of these services from 1 October 1999 until 31 December 2000. eSign will be the only other organisation free to sell VeriSign Web Server Certificates directly to organisations throughout this period.

Melbourne IT commits to the purchase of 4,000 new or renewed Certificates by 31 December 2000. It will be charged a discount to the VeriSign US price list at the time for each Certificate provisioned by eSign to end-users that have been verified by Melbourne IT. If by 31 December 2000, there is an outstanding number of Certificates issued relative to the 4,000 commitment, then Melbourne IT must pre-purchase the outstanding number of Certificates from eSign.

eSign agrees to reduce the fee payable by Melbourne IT by an additional 1% of the US price list for all Certificates issued in excess of the 4,000 target for the period between 1 January 2000 and 31 December 2000. However these moneys represented by the additional 1% are only to be used for mutually agreed marketing program expenses incurred by Melbourne IT.

eSign agrees to investigate with Melbourne IT an option of a further 12 month extension of exclusivity on the 1 September 2000 (based on an upgraded target number of Certificates to be sold in the year 2001) provided Melbourne IT has met its sales performance targets for the year 2000.

The Memorandum is subject to the execution of a formal agreement between eSign and Melbourne IT satisfactory to them by 1 February 2000.

10.6 Litigation

So far as the directors are aware, there is no current or threatened civil litigation; arbitration proceedings or administrative appeals; or criminal or governmental prosecutions in which Melbourne IT is directly or indirectly concerned which is likely to have a material adverse effect on the business or financial position of Melbourne IT.

10.7 Interests of Directors

Except as disclosed below or elsewhere in this Prospectus, no director or proposed director of Melbourne IT and no firm in which a director or proposed director of Melbourne IT is a partner has, or has had in the two years before the lodgment of this Prospectus with ASIC, any interest in the promotion of Melbourne IT or any property proposed to be acquired by Melbourne IT in connection with its formation or promotion. Other than as set out below, no amounts, whether in cash or in shares or otherwise, have been paid or agreed to be paid to any director or proposed director of Melbourne IT (or to any firm in which the director is or was a partner) whether to induce that person to become, or to qualify that person as a director, or otherwise for services rendered by that person or by the firm in which that person is a partner, in connection with the promotion or formation of Melbourne IT.

In recognition of their contribution to the Company's growth since the Company was founded, MEIL has agreed to make cash payments totalling \$1.5 million to four senior executives of the Company, including Professor Gerrand. Professor Gerrand will receive \$600,000 of this amount. The payments will be conditional on and will be made immediately after Completion. In exchange for the payments, each of the executives will enter into a three year non competition agreement with MEIL and the Company.

10.7.1 Holding of Shares and Options

As at the date of this Prospectus, the only marketable securities issued by Melbourne IT are 46,590,909 ordinary shares, all of which are held by MEIL.

Directors are not required under the Constitution of Melbourne IT to hold any Shares. No director as at the date of this Prospectus is the beneficial owner of any Shares. However, the directors of Melbourne IT may acquire Shares offered for sale pursuant to the Offer.

The interests of the directors of Melbourne IT in options over Shares are set out in Section 10.10.

10.7.2 Directors' Fees

The Constitution of Melbourne IT contains the following provisions as to the remuneration of directors:

Rule 48 – Remuneration of Directors

As remuneration for services each non-executive director of Melbourne IT is to be paid out of the funds of Melbourne IT a sum determined by the Board payable at the time and in the manner determined by the Board, but the aggregate remuneration paid to all the non-executive directors in any year may not exceed an amount fixed by Melbourne IT in general meeting. At the date of this Prospectus, such aggregate remuneration is limited to \$400,000. The term remuneration in this Rule does not include any amount which may be paid by Melbourne IT under Rules 49, 50, 51 or 84 of its Constitution.

Rule 49 – Remuneration of Directors for Extra Services

Any director who serves on any committee, who devotes special attention to the business of Melbourne IT, who otherwise performs services which in the opinion of the Board are outside the scope of the ordinary duties of a director or who, at the request of the Board, engages in any journey on the business of Melbourne IT, may be paid extra remuneration as determined by the Board.

Rule 50 – Travelling and other Expenses

Every director is, in addition to any other remuneration provided for in the Constitution, entitled to be paid from Company funds all reasonable travel, accommodation and other expenses incurred by the director in attending meetings of Melbourne IT or of the Board or of any Committees or while engaged on the business of Melbourne IT.

Rule 51 – Retirement Benefits; Superannuation

Any person (including any officer of Melbourne IT) may be paid a benefit (including a prescribed benefit) in connection with the retirement from office (including a prescribed office) of any officer of Melbourne IT, in accordance with the Corporations Law. The Board may make arrangements with any officer with respect to, providing for, or effecting payment of, benefits in accordance with this Rule. In addition, Melbourne IT may pay superannuation contributions for each director to the extent necessary for the avoidance or minimisation of any penalty, charge, tax, or other impost on Melbourne IT under any applicable legislation which imposes a penalty, charge, tax or other impost on employers if a minimum level of superannuation contributions is not paid for an employee (within the meaning of the legislation).

Rule 59 – Appointment of a Managing Director

The Board may appoint one or more of its members to be Managing Director (who may bear that title or any other title determined by the Board) for a period ending on the happening of events (if any) stipulated by the Board (and, in any event, upon the Managing Director ceasing to hold office as a director), and at a remuneration which may be by way of salary or commission on or participation in profits or by any or all of these methods and otherwise on terms determined by the Board. The Board may confer on and withdraw from a Managing Director any of the powers exercisable under the Constitution of Melbourne IT by the Board as it thinks fit and on any conditions it thinks expedient, but the conferring of powers by the Board on a Managing Director does not exclude the exercise of those powers by the Board.

10.8 Indemnities

Melbourne IT has executed a Directors' Deed of Access, Indemnity and Insurance in respect of each director of Melbourne IT (current and retiring) and the Secretary of Melbourne IT. Each Directors' Deed contains an indemnity in favour of the director (or Secretary as the case may be) a party to the Deed, to the extent that Melbourne IT is able to give such an indemnity. The indemnity is against any liability incurred by the director or Secretary in or arising out of the discharge of the duties of the director or Secretary. Each Directors' Deed also gives the director or Secretary a right of access to board papers and requires Melbourne IT to maintain Directors and Officers insurance.

10.9 Directors' Insurance

Melbourne IT has taken out a Directors' and Officers' insurance policy in an amount that the directors consider prudent in the circumstances to:

- i indemnify Melbourne IT in relation to claims made by directors and officers against it under its Constitution for liability incurred in the course of the performance of their duties on behalf of Melbourne IT (directorship liability) and in relation to claims made by the directors and the Secretary of Melbourne IT under their Deeds of Access, Indemnity and Insurance (see Section 10.8 above); and
- ii indemnify the directors and the Secretary of Melbourne IT personally in relation to their directorship liability.

This insurance policy includes cover both for Melbourne IT and for the directors and the Secretary for liability arising from the issue of this Prospectus.

The underwriters for the policy are HIH Casualty and General Insurance Limited, QBE Insurance Ltd, MMI General Insurance Limited and Resource Underwriting Pacific Pty Ltd.

The policy also indemnifies the directors of MEIL as signatories of this Prospectus in the same way that it indemnifies the directors and the Secretary of Melbourne IT. It also indemnifies certain former directors of Melbourne IT who resigned immediately prior to the signing of this Prospectus but who could be regarded as having liability under the Corporations Law for it.

10.10 Melbourne IT Share Option Plan

The Company has established the Melbourne IT Ltd Share Option Plan (the Option Plan), the commencement of which is conditional on the completion of the Offer. The full terms and conditions of the Option Plan may be inspected during normal business hours at the registered office of Melbourne IT. The Board may issue options under the Option Plan to persons eligible to participate in the Option Plan (as described below) at the time of or at any time after the completion of the Offer, subject to the limitation on the number of options that may be issued from time to time referred to below and subject to obtaining shareholder approval by special resolution in the case of options to be issued to directors of Melbourne IT.

Some of the main features of the Option Plan are described below.

Eligibility

All of the directors (including non executive directors) and full time or permanent part time employees of the Company or any of its related body corporates are eligible to participate in the Option Plan.

General Terms of the Options

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

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

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

The first type (Category A Options) will be issued in three tranches, each of which will not be exercisable unless the Company's share price is at least 125% of the exercise price on at least 20 days in any 80 day period between the date the options are issued and the fifth anniversary of the issue date. If this requirement is met, the first tranche of Category A Options will become exercisable on the first anniversary of the issue date (but no earlier than 1 January 2001), the second tranche will become exercisable on the second anniversary of the issue date (but no earlier than 1 January 2002) and the third tranche will become exercisable on the third anniversary of the issue date (but no earlier than 1 January 2003).

The second type of option (Category B Options) will become exercisable only if the total shareholder return (assuming the reinvestment of all dividends) received by the Company's shareholders for the relevant performance period is greater than the median total shareholder return received for the same period by the shareholders of a group of comparable companies selected by the Board. The Category B Options also will be divided into three tranches. The performance period for the first tranche will be the Company's first full financial year after the issue date of the relevant option, while the performance period for the second and third tranches will be the second and third full financial years, respectively, after the issue date.

The third type of option (Category C Options), which also will be issued in three tranches, will be based on individual performance hurdles. The intention is that the performance hurdles will be related to the long term growth of the Company. The initial number of options issued within a tranche may be subsequently reduced depending on the extent to which the holder of the relevant option has failed to meet the individual performance hurdles that were set for the relevant performance period. The performance period for the first tranche will be the Company's first full financial year after the issue date of the relevant option, while the performance period for the second and third tranches will be the second and third full financial years, respectively, after the issue date.

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

Under the Option Plan, if a takeover scheme or arrangement is announced, made or undertaken in respect of Melbourne IT, the Board in its absolute discretion may determine that all then outstanding options that are not yet able to be exercised will become exercisable and that all outstanding Options will lapse at the time or upon the occurrence of an event determined by the Board.

Exercise Price of Options

The exercise price for the Initial Options will be equal to the price for the Shares under this Prospectus. The exercise price for options subsequently issued under the Option Plan will be the percentage determined by the Board of Directors of the average price for the Shares traded on the ASX in the five business days prior to the issue of the options. The exercise price for options will be adjusted in the event of a pro rata issue (other than a bonus issue) to holders of Shares or a capital reorganisation of Melbourne IT.

Lapse of Options

Under the Option Plan and the relevant current Board policies, Category A Options will lapse five years after the date on which those options first become exercisable (but without taking into account the time at which the requirement that the Share price reach 125% of the exercise price is met) and Category B and C Options will lapse five years after the end of the relevant performance period. An option may lapse at an earlier time if certain events occur, such as the termination of the option holder's employment or the insolvency of Melbourne IT.

Limitation on Number of Options

The total number of options outstanding under the Option Plan at any time but which are then unexercised may not exceed 10% of the total number of Shares on issue at that time.

The Initial Options

It is intended that the Initial Options will be issued at the time of the completion of the Offer. All of the Initial Options will have an exercise price equal to the price for the Shares under this Prospectus. The Initial Options will be allocated as follows:

| Name/Group | Category A Options | Category B Options | Category C Options | Total |
|-------------------------|---------------------------|---------------------------|---------------------------|--------------|
| Peter Gerrand | 120,000 | 120,000 | 240,000 | 480,000 |
| Rob Stewart | 34,500 | 34,500 | -- | 69,000 |
| Non-executive directors | 69,000 | 69,000 | -- | 138,000 |
| All other employees | 1,332,000 | 303,000 | 606,000 | 2,241,000 |

10.11 Taxation Considerations for Investors

The Australian taxation consequences of an investment in Shares will depend upon the investor's particular circumstances. The following is intended merely to provide a general summary of the likely Australian taxation treatment for Australian resident individual investors, based on the law in force at the date of this offer document. It is not meant to be an authoritative or complete statement of the law. Investors should consult a professional adviser about their own personal circumstances. Non-resident investors should also consider the taxation implications relevant to their country of residence.

Taxation of Dividends

Australian Resident Individuals

Shareholders who are Australian resident individuals may be liable for income tax on dividends paid on the Shares. The amount of income tax payable by such an investor on dividends they receive from Melbourne IT is likely to depend on the extent that those dividend are 'franked' by Melbourne IT.

Generally a franked dividend is a dividend paid out of profits on which Melbourne IT has paid tax. Melbourne IT will pay tax on its taxable income at the Australian corporate tax rate, which is currently 36% (but refer proposed changes below).

If the dividend is franked, the investor may be entitled to an income tax credit for tax paid by Melbourne IT. This means that, if Melbourne IT pays franked dividends, the investor will probably pay reduced or no tax on such dividends, depending on the investor's marginal rate of tax. If the investor's marginal rate of tax is lower than the Australian corporate tax rate, some of the tax credit may also offset tax on other income of the investor in that year, but under current law any excess franking credit cannot be refunded or carried forward to offset tax on income earned in later years (but refer proposed changes below). There are circumstances where an investor may not be entitled to the benefits of the tax credit. The application of these rules depends on the investor's own circumstances, including the period for which the Shares are held and the extent to which the investor is 'at risk' in relation to the investment.

If the dividend is unfranked, or only partially franked, the investor will generally pay income tax on the unfranked portion of the dividend at their marginal rate of tax.

The amount of the franking credit available for any dividend will be shown separately on the dividend statements provided by Melbourne IT to each shareholder.

Other Shareholders

Different tax consequences apply to other shareholders such as Australian resident companies or trusts or non-resident shareholders. Such shareholders should seek their own professional advice.

Tax File Numbers

An investor need not quote a Tax File Number (TFN) when applying for Shares in Melbourne IT. However, if a TFN is not quoted, or no appropriate TFN exemption information is provided, tax is required to be deducted from income distributions (other than franked dividends) at the highest marginal tax rate plus Medicare levy (currently 48.5%).

Disposal of Shares

Australian Resident Individuals

A capital gain or loss may arise to Australian resident individual shareholders who dispose of their Shares.

Generally a capital gain will arise where the consideration received upon disposal exceeds the cost base of the Shares. Under current law, if the Shares are held for at least twelve months, the cost base of the Shares will be adjusted for inflation over the period of the shareholding (but refer proposed changes below).

Shareholders who dispose of their Shares at a price which is less than the price at which they acquire those Shares may incur a capital loss. A capital loss may be used to offset other taxable capital gains but may not be used to offset 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.

Other Shareholders

Different tax consequences may apply to other shareholders such as Australian resident companies or trusts or non-resident shareholders. Such shareholders should seek their own professional advice.

Proposed changes to Australia's system of taxation

Australia's income tax laws are currently subject to extensive review. The government established a Review of Business Taxation in late 1998. The final report of the Review of Business Taxation (the Report) was publicly released by the Treasurer on 21 September 1999. In a press release statement made on 21 September 1999, the government announced a number of proposed changes to the Tax Laws in accordance with recommendations in the Report and also announced its intention to consider the remaining recommendations in the ensuing months and then announce its response.

The comments below are based on what was said by the Treasurer in the press release of 21 September 1999. No assurance can be given that the measures described below will not be modified or amended by Federal Parliament, or that legislation adopting the announced changes will necessarily be passed by Federal Parliament. Legislation giving effect to the proposed changes is yet to be introduced into Federal Parliament.

The key changes proposed in the press release of 21 September 1999 that could impact the summary of the likely Australian taxation treatment for Australian resident individual investors outlined above are as follows:

- It is proposed that there be a reduction in Australian corporate tax rate from 36% to 34% for the 2000-2001 income year and a further reduction to 30% for income years from 2001-2002. This proposal will affect franking credits available to investors.
- It is proposed that, with effect from 1 July 2000, resident individuals will be entitled to receive a refund of excess franking credits if the credit attaching to the dividend exceeds their income tax liability for the year in which they are paid the dividend.
- It is proposed that individuals will pay income tax at their marginal rate of tax on only half of the capital gain realised on assets disposed of from 1 October 1999 which have been held for at least one year. However it is also proposed that adjustments for inflation of the cost base of assets such as the Shares will be discontinued from 30 September 1999 and that the benefits of averaging for capital gains tax will be removed.

10.12 Interests of Experts

Other than as set out below or elsewhere in this Prospectus, no expert or any firm in which an expert is a partner, has or has had in the two years before the lodgment of this prospectus with ASIC, any interest in the promotion of Melbourne IT or any property proposed to be acquired by Melbourne IT in connection with its formation or promotion. Other than as set out below or elsewhere in this Prospectus, no amounts, whether in cash or shares or otherwise, have been paid or agreed to be paid to any expert (or to any firm in which the expert was a partner) for services rendered by the expert or the firm in connection with the formation or promotion of Melbourne IT. No form of payment of any kind will be made to any expert or firm other than in cash.

Deloitte Touche Tohmatsu have acted as Independent Accountants for the Offer and prepared the Independent Accountant's Report and the Independent Review of the Directors' Forecasts contained in this Prospectus. Melbourne IT have paid or agreed to pay Deloitte Touche Tohmatsu approximately \$190,000 (plus disbursements) for these services to the date of this Prospectus. Further amounts may be paid to Deloitte Touche Tohmatsu in accordance with its usual time based charge-out rates.

Deloitte Corporate Finance Pty Limited (an entity associated with Deloitte Touche Tohmatsu) has acted as financial adviser to Melbourne IT and MEIL. Melbourne IT has agreed to pay Deloitte Corporate Finance Pty Limited \$150,000 for the services to the date of this Prospectus. In addition, MEIL has agreed to pay Deloitte Corporate Finance Pty Limited approximately \$561,000 in accordance with its usual terms on Completion.

10.13 Information Relating to Prospectus

10.13.1 Internet Industry Forecast Bodies

International Data Corporation

IDC, headquartered in the United States, is a provider of information technology industry data, analysis and advisory services worldwide. IDC's research and opinions are based on the results of more than 30,000 end-user surveys, competitive analysis, technology coverage, and strategic analysis. IDC has more than 3,900 clients worldwide ranging from Fortune 500 leaders to government agencies.

NetNames International

NetNames International is an ICANN-accredited international domain names registrar, headquartered in the United Kingdom. NetNames is also the provider of statistical information on the number of domain names registered to the widely used DomainStats .com service.

NetNames has noted that the domain name registration statistics supplied by it (including services such as www.domainstats.com and statistics on the www.netnames.com) are provided as a guide to Domain Name registrations that occur around the globe. Whilst NetNames will make every effort to maintain the accuracy of these statistics for all new registrations and deletions that occur, it cannot guarantee that all new registrations and deletions will be detected. These statistics are reliant on the information stored on NIC databases around the world and consequently NetNames cannot accept any responsibility for new registrations and deletions that are not detected.

10.13.2 Expert's Consent

Deloitte Touche Tohmatsu has given its written consent to the issue of this Prospectus with their Independent Accountant's Report and the Independent Review of the Directors' Forecasts included in the form and context in which they are included, and being named in this Prospectus as Independent Accountant in respect of the Offer and the Independent Expert on the Independent Review of the Directors' Forecasts in the form and context in which they are named. Deloitte Touche Tohmatsu has not withdrawn its consent prior to the lodgment of this Prospectus with ASIC. Deloitte Touche Tohmatsu has not authorised or caused the issue of this Prospectus.

10.13.3 Other Consents and Disclaimers of Responsibility

Deloitte Corporate Finance Pty Limited has given its written consent to being named in this Prospectus as financial adviser to Melbourne IT in respect of the Offer in the form and context in which it is named. Deloitte Corporate Finance Pty Limited has not withdrawn its consent prior to the lodgment of this Prospectus with ASIC. Deloitte Corporate Finance Pty Limited is not responsible for and has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus.

L.E.K. Consulting Pty Ltd has given its written consent to being named in this Prospectus as business consultant to Melbourne IT in respect of the Offer in the form and context in which it is named. L.E.K. Consulting Pty Ltd has not withdrawn its consent prior to the lodgment of this Prospectus with ASIC. L.E.K. Consulting Pty Ltd has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus.

J B Were & Son has given its written consent to being named in this Prospectus as Underwriter and Lead Manager to the Offer in the form and context in which it is named. J B Were & Son has not withdrawn its consent prior to the lodgment of this Prospectus with ASIC. J B Were & Son has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus.

Commonwealth Securities Limited has given its written consent to being named in this Prospectus as Co-Manager to the Offer in the form and context in which it is named. Commonwealth Securities Limited has not withdrawn its consent prior to the lodgment of this Prospectus with ASIC. Commonwealth Securities Limited has not authorised or caused the issue or otherwise been involved in the preparation of this Prospectus and does not make, or purport to make, any statement in this Prospectus.

Arthur Robinson & Hedderwicks has given their written consent to being named in this Prospectus as legal advisers in respect of the Offer in the form and context in which they are named. Arthur Robinson & Hedderwicks have not withdrawn their consent prior to the lodgment of this Prospectus with ASIC. Arthur Robinson & Hedderwicks have been involved in due diligence enquiries in relation to legal matters but have not authorised or caused the issue of this Prospectus and do not make, or purport to make, any statement in this Prospectus.

The Victorian Auditor-General has given his written consent to being named in this Prospectus as the auditor of Melbourne IT for the eight months ended 31 December 1996 and the financial years ended 31 December 1997 and 1998 in the form and context in which he is named. The Victorian Auditor-General has not withdrawn his consent prior to the lodgment of this Prospectus with ASIC. The Victorian Auditor-General has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus.

Ernst & Young has given its written consent to being named in this Prospectus as auditors of Melbourne IT for the six months ended 30 June 1999 in the form and context in which it is named. Ernst & Young has not withdrawn its consent prior to the lodgment of this Prospectus with ASIC. Ernst & Young has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus.

Perpetual Registrars Limited has given its written consent to being named in this Prospectus as the Share Registry in the form and context in which it is named. Perpetual Registrars Limited has not withdrawn its consent prior to the lodgment of this Prospectus with ASIC. Perpetual Registrars Limited has had no involvement in the preparation of any part of this Prospectus other than the recording of its name as Share Registry and the design of the Application Form. Perpetual Registrars Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Prospectus.

Ericsson Australia Pty Ltd has given its written consent to being named in this Prospectus in the form and context in which it is named. It has not withdrawn its consent prior to the lodgment of this Prospectus with ASIC. Ericsson Australia Pty Ltd is not responsible for and has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus.

International Data Corporation has given its written consent to being named in this Prospectus in the form and context in which it is named. It has not withdrawn its consent prior to the lodgment of this Prospectus with ASIC. International Data Corporation is not responsible for and has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus.

NetNames International has given its written consent to being named in this Prospectus in the form and context in which it is named. It has not withdrawn its consent prior to the lodgment of this Prospectus with ASIC. NetNames International is not responsible for and has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus.

10.14 Expenses of the Offer

The Existing Shareholder has agreed with Melbourne IT to share the expenses connected with the Offer. Melbourne IT's share of the expenses will be approximately \$900,000.

10.15 Documents Available for Inspection

Certified copies of the following documents will be deposited at the registered office of Melbourne IT at Level 3, 207 Bouverie Street, Carlton Victoria 3053 within seven days of the lodgment of a copy of this Prospectus with ASIC:

- Constitution of Melbourne IT;
- the material contracts referred to above;
- the Option Plan;
- Directors' Deeds; and
- Consents to the issue of this Prospectus.

These certified copies will be available for at least 12 months after registration of this Prospectus. They will be available for inspection during normal office hours at the office set out above or, after 4 December 1999 at the Company's offices at Level 2, 120 King Street, Melbourne, Victoria 3000.

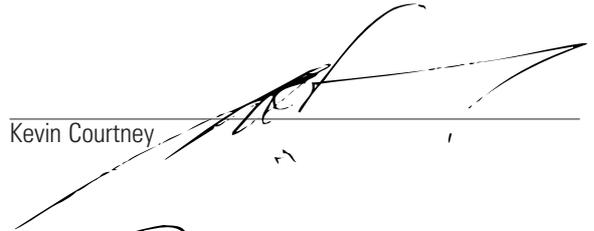
10.16 Directors Statement

The directors report that, in their opinion, since 30 June 1999, the date of the accounts used in the preparation of the Independent Accountant's Report, no circumstances have arisen that materially affect or will materially affect the profitability of Melbourne IT or the value of its assets and liabilities, except as disclosed in this Prospectus. The directors of Melbourne IT and MEIL have authorised the issue of this Prospectus.

Signed by each Director of Melbourne IT Ltd



Dr Colin Adam



Kevin Courtney



Professor Peter Gerrard



Dr Stephen Gumley*



Professor Iain Morrison



Rob Stewart

* signed by Rob Stewart as his attorney

Signed by each Director of Melbourne Enterprises
International Ltd



Dr Colin Adam



William Barrett Capp*



Professor Alan Gilbert**



David Lloyd



Roger Peacock



David Percival



Geoff Rees

* signed by Geoff Rees as his attorney

** signed by Geoff Rees as his attorney

11 Glossary

In the Prospectus the following words have these meanings unless the context requires otherwise:

\$

Australian dollars

AEST

Australian Eastern Standard Time

Allotment Date

the date of allotment of Shares under the Public Offer

Applicant

A person who submits an application for Shares

Application

A valid application to purchase a specified number of Shares under the Offer

Application Form

The form attached to this Prospectus enabling investors to apply for Shares under the Offer

Application Price or Issue Price

\$2.20 per Share

ASAC

Advanced Services Application Centre conducted jointly by the Company and Ericsson Australia Pty Ltd

ASIC

Australian Securities and Investments Commission

ASX

Australian Stock Exchange Limited

auDA

au Domain Administration (ACN 079 009 340), a non-profit making organisation established in April 1999 with the aim of becoming the Internet industry self-regulatory body for administering the .au namespace

AUNIC or

Australian Network Information Centre

Compile and maintain the Network Information Centre (NIC) data base for NIC handles with .au suffix. A NIC handle is a string (characters and letters) that maps to a database entry which contains details of a person, organisation, network or domain

Authority

The authority granted to Melbourne IT to conduct the business of registration of domain names by the responsible person or regulatory body

Board

The Board of Directors of Melbourne IT Ltd

Browser

Software application used to display HTML documents. Browsers may be used to display or retrieve Internet webpages and documents

CAGR

Compound annual growth rate

Capital Reduction

The selective capital reduction, immediately after the completion of the Offer, at the Offer Price of 39,090,909 Shares held by the Existing Shareholder

ccTLD

Country Code Top Level Domain (eg .au or .nz)

CHESS

Clearing House Electronic Sub-register System

CITRI

Collaborative Information Technology Research Institute

Co-Manager

Commonwealth Securities Limited

Company

Melbourne IT Ltd

Completion

Completion of the allotment of Shares under the Offer

DNS or

Domain Name System

The Internet Domain Name System was created as a means of linking easier-to-understand, hierarchical names for host computers to unique numerical network addresses

Digital Certificates

A software application that is the equivalent of a passport – unique, verifiable proof of identity, issued by a trusted third party that enables the receiver to validate the identity of the parties to electronic commerce transactions and activates a secure, encrypted link between the customer and the vendors' web site

Domain name

The word or number immediately following the @ sign in an Internet address. The domain naming system is a hierarchical system of host naming that groups hosts into categories. In the naming scheme, .com extensions identify businesses, .edu extensions identify educational institutions, and .gov extensions identify government sites. Outside the US, hosts are named for their country (for example, .au for Australia)

EBIT

Earnings before interest and tax

EBITDA

Earnings before interest, tax, depreciation and amortisation

eCommerce

The conduct of commerce in goods and services, with the assistance of telecommunications and telecommunications-based tools (such as the Internet)

EDI

Direct Computer-to-computer exchange of structured transactional information between autonomous computers. EDI is often used to connect various parts of a business (such as billing, ordering, and inventory) with common vendors. EDI links have traditionally been purpose-built, and are increasingly being replaced by generic connections via the Internet

ePayments

Provision of customer-to-merchant and business-to-business funds transfer over the Internet. ePayment systems included traditional credit card processing, electronic cash transfer through a trusted third party and direct electronic funds transfer between accounts

eSign

A recently established Australian company which will issue VeriSign digital certificates in Australia

eSign MoU

Memorandum of Understanding between Melbourne IT and eSign Australia Pty Ltd dated 28 September 1999 for the issue of VeriSign Digital Web Server Certificates in Australia

Existing Shareholder

Melbourne Enterprises International Ltd, a company controlled by The University of Melbourne

gTLD

Generic Top Level Domain. Refers to the suffix attached to Internet domain names, such as .com, .gov, .edu, .org, .mil, .net

GST

Goods and Services Tax

HIN

Holder identification number

host

An electronic repository (usually a computer) for information available to other computers on the Internet

HTML or Hypertext Markup Language

The coding language used to create Hypertext documents for use on the World Wide Web

IANA

Internet Assigned Numbers Authority, a university-based body funded by the US Government, whose key functions are being transferred to ICANN. The full transfer of authority is scheduled to be completed by September 2000

ICANN or Internet Corporation for Assigned Names and Numbers

A non-profit corporation that was formed to assume responsibility for the Internet protocol address space allocation, protocol parameter assignment, domain name system management, and root server management functions now performed under US Government contract by IANA and other entities

ICANN MoU

Memorandum of Understanding between ICANN and the US Department of Commerce in 1998 to work together to manage the transition of the registration of gTLD names to private control and introduce greater competition

IDC

International Data Corporation, an Internet Research Company

INA

Internet Names Australia, the previous name of the business unit now called Internet Names World Wide

Internet

A global network of computers with a common addressing system

Internet Address

See Domain Name

Internet shopping cart

A software device by which webpage visitors can store a record of selected products from an on-line catalogue for purchase at the end of their visit. Once confirmed, orders can be immediately relayed to an order fulfilment centre via various methods including mail, fax and on-line email

INWW

Internet Names World Wide

Independent Accountant

Deloitte Touche Tohmatsu

ISP or Internet Service Provider

A company which provides companies or individuals with access to, or presence on, the Internet

IT

Information Technology

J B Were & Son

Were Stockbroking Limited, trading as J B Were & Son

MEIL

Melbourne Enterprises International Ltd, a company controlled by The University of Melbourne

Melbourne IT

Melbourne IT Ltd (ACN 073 716 793) and its related companies

Metadata

Metadata is information about data. For example, a library catalogue entry that describes a book held in the library or a directory entry that describes a document available via the Internet

NOIE

National Office of the Information Economy

NPAT

Net profit after tax

NSI or**Network Solutions Incorporated**

Founded in 1979, NSI pioneered the registration of domain names ending in .com, .net, .org and .edu. NSI is currently the largest registrar of domain names and is also responsible for maintaining the stability and security of the master file of Internet Web addresses

OES

Online Enterprise Solutions

Offer

The issue of Shares under this Prospectus

Online Directory

Compendium of addresses and information, stored and accessed in electronic format

PC

Personal computer

Portal

The designation given to Internet sites used as main points of entry to the Worldwide Web

Prospectus

This Prospectus dated 3 November 1999 for the issue of 42,500,000 Shares

RealNames Internet Keywords System

A proprietary Internet naming system developed by RealNames Corporation that allows companies to register a wide range of names (such as company names, products trademarks etc) and allows the relevant web page to be readily located without using its full domain name

RealNames Corporation

A US corporation that is the licensed owner of the RealNames Internet Keywords System

Registry

A central computer listing of registered domain names and their location on the Internet that is shared by all registrars to keep track of which names have been assigned, and to whom

Registrar

An organisation that acts as an interface between domain name holders and a registry, providing registration services (collecting and recording applicant details, confirming availability of names, and up-dating registry) in return for a registration fee

Resellers

Melbourne IT's domain name resellers

R&T

Research and Technology

SCH

Securities Clearing House

Search Engine

An electronic service that scans the Internet for Web sites related to criteria entered by an end user and returns a list of relevant sites

Share

Fully paid ordinary share in the Company

Share Registrar

Perpetual Registrars Limited

SLD

Second level domain

SRN

Securityholder Reference Number

TLD

Top Level Domains

Underwriter and Lead Manager

Were Stockbroking Limited ACN 006 797 897, trading as J B Were & Son

URL or**Universal Reference Location**

The address that defines the route to a file on the Web or any other Internet facility. URLs are typed into the browser in order to locate and view a Worldwide Web page. They are also embedded within the pages themselves to provide simplified links to other pages

USA

The United States of America

VeriSign

VeriSign Inc., an American corporation issuing digital certificates that enable secure online communications and transactions, privacy, and authentication to enterprises, Web sites, and consumers

Web designer

Generic description of software programmers responsible for design and implementation of a website's appearance and functionality

Website Hosting

A service that provides an electronic repository (usually a computer) for information available to other computers on the network

WWW,**Worldwide Web or web**

A system of Internet servers that support specially formatted documents. The documents are formatted in a language called HTML (Hypertext Markup Language) that supports links to other documents, as well as graphics, audio, and video files

Supplementary Prospectus

This Supplementary Prospectus provides additional information to that included in the prospectus dated 3 November 1999 (the Prospectus) issued by Melbourne IT Ltd (Melbourne IT) and lodged with the Australian Securities and Investments Commission (ASIC) on 3 November 1999.

Summary of Updated Information

The following development has occurred since the Prospectus was lodged with the ASIC:

Transfer of com.au delegation

On 8 November 1999 Mr Robert Elz, who is authorised by delegation to administer the com.au domain space and by whom the Company's Authority was granted, transferred this delegation to auDA. At the time the Prospectus was lodged with the ASIC, it was not clear if or when Mr Elz would transfer the delegation and whether he would transfer the delegation to NOIE or to auDA.

The directors of Melbourne IT believe that the transfer of the com.au delegation by Mr Elz to auDA will not have a material effect on the Company's Authority or on the administration by Melbourne IT of the com.au domain space and therefore the Melbourne IT directors do not believe that this development will have a material effect on Melbourne IT.

This development alters several statements relating to the regulation of the com.au domain space contained in sections 3, 4 and 7 of the Prospectus, as outlined below.

Particular Changes to the Prospectus

The development described above will be reflected in the Prospectus in the following manner:

Existing Prospectus reference

Change to Prospectus

Page 24, Section 3.2.4, 4th paragraph:

"auDA is preparing to assume responsibility for the above tasks, even though the formal delegated authority for .au still rests with Mr Elz."

"auDA is preparing to assume responsibility for the above tasks, even though the formal delegated authority for .au still rests with Mr Elz, except for the delegation of com.au that Mr Elz transferred to auDA on 8 November 1999."

Page 24, Section 3.2.6, 2nd paragraph:

"the role and specific policies of NOIE and auDA in the licensing of .au domain name registration and registry participants are not settled and it is not clear if or when the current .au delegation from ICANN/IANA to Mr Elz (on which the Company's Authority depends) will be transferred to NOIE or auDA;"

"the role and specific policies of NOIE and auDA in the licensing of .au domain name registration and registry participants are not settled and it is not clear if or when the current .au delegation from ICANN/IANA to Mr Elz will be transferred to NOIE or auDA, apart from the delegation of com.au which was transferred by Mr Elz to auDA on 8 November 1999;"

Page 24, Section 3.2.6, 3rd paragraph:

"auDA has commenced negotiations with Melbourne IT on licence conditions to apply in the event that .au administration is transferred to auDA. These negotiations are not yet concluded and, as a consequence, the conditions under which Melbourne IT will continue to administer the com.au domain remain unclear;"

"auDA has commenced negotiations with Melbourne IT on licence conditions. These negotiations are not yet concluded and, as a consequence, the conditions under which Melbourne IT will continue to administer the com.au domain following expiration of its Authority remain unclear;"

Existing Prospectus reference**Change to Prospectus**

Page 25, Section 3.2.6, 11th paragraph:

"delegation of the .au administration will be transferred from Mr Elz to NOIE or auDA prior to expiration of the current Authority. Following recent discussions between the Company's representatives and Mr Elz it is not clear that should Mr Elz retain authority for the administration of .au he would renew the current com.au sub-delegation on 8 October 2001. Mr Elz has in the past expressed a preference for a new Authority to be issued to a not-for-profit organisation. The directors believe this lack of clarity does not represent a material risk to the Company's operations based on their belief that Mr Elz's authority will be transferred prior to October 2001."

Paragraph deleted

Page 31, Section 4.2.5, 1st paragraph:

"Competition has recently been introduced in the gTLD registration business and competition in the Australian domain name market is expected in the foreseeable future. Melbourne IT expects auDA to assume responsibility for licensing the com.au registration business. auDA has published a statement of principles which emphasises the need to ensure the continued operational stability of the domain name system within Australia and the need to promote competition in the provision of domain name services."

"Competition has recently been introduced in the gTLD registration business and competition in the Australian domain name market is expected in the foreseeable future. auDA has assumed responsibility for licensing the com.au registration business following the transfer of the delegation of com.au from Mr Elz to auDA on 8 November 1999. auDA has published a statement of principles which emphasises the need to ensure the continued operational stability of the domain name system within Australia and the need to promote competition in the provision of domain name services."

Page 31, Section 4.2.5, 3rd paragraph:

"Melbourne IT is currently in negotiations with auDA with regard to a licencing agreement for the administration of the com.au domain space, in anticipation of the transfer to auDA of .au domain administration responsibility."

"Melbourne IT is currently in negotiations with auDA with regard to a licencing agreement for the administration of the com.au domain space."

Page 54, Section 7, Uncertain Australian Regulatory Environment, 1st paragraph:

"It is not known whether, and if so on what basis, NOIE or auDA will become the licensor of com.au registration rights. While Directors believe that an industry self-regulatory body, most probable auDA, is likely to receive the delegated authority from ICANN to regulate the issuing of Authorities for .au domain names registration, there can be no assurance that this will occur."

Paragraph deleted

Important Information

This is a Supplementary Prospectus dated 11 November 1999 for the purposes of section 1024 of the Corporations Law and was lodged with the ASIC on 11 November 1999. It must be read in conjunction with the Prospectus. Neither the ASIC nor the Australian Stock Exchange Limited takes responsibility for the contents of this Supplementary Prospectus.

Unless otherwise defined in this Supplementary Prospectus, terms defined in the Key Terms commencing on page 18 of the Prospectus and the Glossary commencing on page 88 of the Prospectus have the same meanings in this Supplementary Prospectus.

The information in the Prospectus and this Supplementary Prospectus is important and should be read carefully before you make your investment decision. If you are in any doubt about your decision, you should consult a stockbroker, accountant, financial or other adviser.

Directors' Authorisation

This Supplementary Prospectus has been signed by each of the Directors of Melbourne IT

This Supplementary Prospectus has been signed by each of the Directors of Melbourne Enterprises International Ltd

Dr Colin Adam**

William Barrett Capp**

Professor Alan Gilbert**

Dr Colin Adam*

David Lloyd**

Kevin Courtney*

Roger Peacock**

Professor Peter Gerrard*

David Percival**

Dr Stephen Gumley

Geoff Rees

Professor Iain Morrison*

Rob Stewart

** signed by Geoff Rees as his attorney

* signed by Rob Stewart as his attorney

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from December 1999

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Professor Peter Gerrand (Chief Executive Officer)
Dr Colin Adam
Professor Iain Morrison
Dr Stephen Gumley
Kevin Courtney

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MELBOURNE **IT**