TEL.PACIFIC PTY LIMITED

A.B.N. 99 073 079 268

AND CONTROLLED ENTITIES

Financial Report
For The Year Ended
30 June 2006

CONTENTS

TEL.PACIFIC PTY LIMITED AND CONTROLLED ENTITIES
A.B.N. 99 073 079 268

DIRECTORS' REPORT

Your directors present the report on the company for the financial year ended 30 June 2006.

Directors
The names of the directors in office at any time during or since the end of the year are:

Chiao-Heng Huang B Eng
Managing Director

Barry Chan B Eng
Director

Jeffrey Ma FCA F Fin BA (Hon)
Director

Bob Cheng B Eng
Non-Executive Director

Cheng-Che Huang
Non-Executive Director (appointed 28 July 2006)

The directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities
The principal activities of the economic entity during the financial year were Internet services provider and telecommunications services. No significant change in the nature of these activities occurs during the year.

Review of Operations
A review of the operations of the economic entity during the financial year shows an increased profit attributable to an increasing focus on the voice related business.

Operating Results
The consolidated profit of the economic entity for the financial year after providing for income tax amounted to $977,158 (2005 - $425,729).

Details of Significant Changes in State of Affairs
There have been no significant changes in the economic entity's state of affairs during the financial year.

Directors' Shareholdings
The interest of each director in shares of the company is:

Directors	Number of Ordinary Shares
Chiao-Heng Huang	92,131,708
Barry Chan	12,989,679
Jeffrey Ma	900,000
Bob Cheng	12,851,981

After Balance Date Events
No matters or circumstances have arisen since the end of the financial year (refer to Note 27) which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Future Developments
Likely developments in the operations of the economic entity and the expected results of those operations in the future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the economic entity.

DIRECTORS' REPORT (continued)

Environmental Issues
The economic entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Dividends
An unfranked dividend of $371,717 (2005 - $265,513) was declared and paid on 19 June 2006 for the year ended 30 June 2006 since the start of the financial year.

Options
No options over issued shares or interests in the company or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the date of this report

Directors Meetings
The number of directors meetings and the number attended by each director during the financial year were as follows:

Directors	Board of Directors	
	Held	Attended
Chiao-Heng Huang	7	7
Barry Chan	7	7
Jeffrey Ma	7	7
Bob Cheng	7	5

Indemnifying Officers or Auditors
No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditors of the economic entity.

Proceedings on Behalf of Company
No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Auditors Declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 3.

Signed in accordance with a resolution of the Board of Directors:

Managing Director ....
Chiao-Heng Huang

Dated this 27 November 2006

PKF

Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

To: The Directors
Tel.Pacific Pty Limited

As lead engagement partner for the audit of Tel.Pacific Pty Limited and controlled entities for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Tim Sydenham
Partner
Sydney Office

PKF

PKF
Dated: 27 November 2006

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TEL.PACIFIC PTY LIMITED AND CONTROLLED ENTITIES
A.B.N. 99 073 079 268

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Company 2006 $	Company 2005 $
Revenue	3	36,073,861	31,563,596	35,506,383	31,527,425
Cost of goods sold		26,733,637	23,716,869	26,472,855	23,716,869
Gross profit		9,340,224	7,846,727	9,033,528	7,810,556
Employee benefits expense		4,382,897	3,934,252	4,168,771	3,888,550
Finance costs		39,758	39,888	39,758	39,888
Depreciation and amortisation expense		709,412	792,590	658,290	778,760
Occupancy expense		587,389	335,373	319,847	328,301
Printing, postage and stationery expense		154,660	82,784	146,503	82,036
Advertising and promotion expense		818,534	555,617	806,825	555,431
Communication expense		203,543	179,408	199,922	177,875
Professional fees		174,109	78,803	167,548	76,682
Bank and merchant fees		207,719	188,653	204,324	188,310
Contract staff		346,528	471,048	346,528	471,048
Travel expense		316,260	250,626	304,016	234,516
Bad and doubtful debts expense		160,120	56,035	137,076	56,035
Other expenses		255,184	216,157	534,814	263,691
Profit before income tax	4	984,111	665,493	999,304	669,433
Income tax expense	5	6,953	239,764	6,953	239,764
Profit attributable to members of the parent entity		977,158	425,729	992,351	429,669
		Cents	Cents		
Dividend per share		0.28	0.20		

The accompanying notes form part of these financial statements

TEL.PACIFIC PTY LIMITED AND CONTROLLED ENTITIES

A.B.N. 99 073 079 268

BALANCE SHEET
AS AT 30 JUNE 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Company 2006 $	Company 2005 $
ASSETS					
Current Assets					
Cash and cash equivalents	8	3,465,300	2,819,402	3,230,008	2,689,155
Trade and other receivables	10	1,281,953	513,935	2,317,286	924,812
Inventories	11	1,904,562	3,512,319	1,543,533	3,512,319
Deferred tax asset	12	472,769	329,685	472,769	329,685
Other current assets	13	437,190	570,001	401,534	196,817
Total Current Assets		7,561,774	7,745,342	7,965,130	7,652,788
Non-Current Assets					
Financial assets	14	100	-	52,312	52,212
Other non-current assets	13	117,170	-	117,170	-
Property, plant and equipment	16	2,989,084	2,452,559	2,584,496	2,427,957
Intangible assets	17	1,617	1,615	852	850
Total Non-Current Assets		3,107,971	2,454,174	2,754,830	2,481,019
TOTAL ASSETS		10,669,745	10,199,516	10,719,960	10,133,807
LIABILITIES					
Current Liabilities					
Trade and other payables	18	9,010,083	9,383,923	9,004,585	9,277,694
Short term borrowings	19	258,392	242,433	258,392	242,433
Short term provisions	20	524,098	398,004	524,098	398,004
Total Current Liabilities		9,792,573	10,024,360	9,787,075	9,918,131
Non-Current Liabilities					
Long term borrowings	19	293,617	326,642	293,617	326,642
Long term provisions	20	74,999	19,729	74,999	19,729
tal Non-Current Liabilities		368,616	346,371	368,616	326,642
TOTAL LIABILITIES		10,161,189	10,370,731	10,155,691	10,244,773
NET ASSETS/(LIABILITIES)		508,556	(171,215)	564,269	(110,966)
EQUITY					
Issued capital	21	4,200,982	4,126,652	4,200,982	4,126,652
Reserves	22	(4,389)	(4,389)	-	-
Accumulated losses		(3,688,037)	(4,293,478)	(3,636,713)	(4,257,347)
TOTAL EQUITY		508,556	(171,215)	564,269	(130,695)

The accompanying notes form part of these financial statements

TEL.PACIFIC PTY LIMITED AND CONTROLLED ENTITIES
A.B.N. 99 073 079 268

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Company 2006 $	Company 2005 $
ISSUED CAPITAL					
Balance at start of period		4,126,652	4,067,252	4,126,652	4,067,252
Share-based payment expense		74,330	59,400	74,330	59,400
Balance at end of period	21	4,200,982	4,126,652	4,200,982	4,126,652
RESERVES					
Balance at start of period		(4,389)	-	-	-
Exchange differences on translating foreign operations		-	(4,389)	-	-
Balance at end of period	22	(4,389)	(4,389)	-	-
ACCUMULATED LOSSES					
Balance at start of period		(4,293,478)	(4,453,694)	(4,257,347)	(4,421,503)
Profit for the period		977,158	425,729	992,351	429,669
Dividend paid during the period	9	(371,717)	(265,513)	(371,717)	(265,513)
Balance at end of period		(3,688,037)	(4,293,478)	(3,636,713)	(4,257,347)
TOTAL EQUITY		508,556	(171,215)	564,269	(130,695)

The accompanying notes form part of these financial statements

TEL.PACIFIC PTY LIMITED AND CONTROLLED ENTITIES
A.B.N. 99 073 079 268

CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Company 2006 $	Company 2005 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		39,669,509	33,155,838	38,415,607	32,657,729
Payments to suppliers and employees		(37,284,047)	(30,123,934)	(36,563,853)	(29,742,180)
Interest received		167,196	93,033	164,752	92,863
Finance costs		(39,758)	(39,888)	(39,758)	(39,888)
Income tax paid		(119,209)	-	(119,209)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	8	2,393,691	3,085,049	1,857,539	2,968,524
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant & equipment		(1,218,697)	(1,313,378)	(787,590)	(1,313,378)
Purchase of investments		(102)	-	(102)	-
Development costs		(144,410)	-	(144,410)	-
NET CASH USED IN INVESTING ACTIVITIES		(1,363,209)	(1,313,378)	(932,102)	(1,313,378)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		201,803	393,000	201,803	393,000
Repayment of borrowings		(218,869)	(75,151)	(218,869)	(75,151)
Dividends paid		(367,518)	(265,513)	(367,518)	(265,513)
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES		(384,584)	52,336	(384,584)	52,336
Net increase in cash held		645,898	1,824,007	540,853	1,707,482
Cash held at the beginning of the financial year		2,819,402	995,395	2,689,155	981,673
CASH AT THE END OF FINANCIAL YEAR	8	3,465,300	2,819,402	3,230,008	2,689,155

The accompanying notes form part of these financial statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The following is a summary of the material accounting policies adopted in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated, with all balances being presented in Australian dollars.Comparative information is reclassified where appropriate to enhance comparability.

The financial report covers the economic entity of Tel.Pacific Pty Limited as an individual parent entity and Tel.Pacific Pty Limited and the controlled entities as an economic entity. Tel.Pacific Pty Limited is a company limited by shares, incorporated and domiciled in Australia.

(a) Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Tel.Pacific Pty Limited and the controlled entities, and Tel.Pacific Pty Limited as an individual parent entity have prepared financial statements in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS) from 1 January 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of International Financial Reporting Standards (IFRS) have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB1 have been applied. These consolidated accounts are the first financial statements of Tel.Pacific Pty Limited to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 132: Financial Instruments - Disclosure and Presentation, and AASB 139: Financial Instruments - Recognition and Measurement. Refer to Note (g) for further details.

Reconciliations of the transition from previous Australian GAAP have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

(b) Principles of Consolidation

A controlled entity is any entity Tel.Pacific Pty Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 11 to the financial statements. All controlled entities have a June year end.

All intercompany balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries are as applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income Tax

The entity adopts the liability method of tax effect accounting whereby the income tax expense is based on the operating profit adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation, and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with conditions of deductibility imposed by the law.

TEL.PACIFIC Pty Limited is responsible for recognising the current and deferred tax assets and liabilities for the consolidated group.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value.

(e) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property
Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Any accumulated depreciation at the date of valuation is estimated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity. All other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the assets original cost is transferred from the revaluation reserve to retained earnings.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and Equipment
Plant and Equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation
The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings	2%
Leasehold Improvements	13%
Plant and Equipment	20% - 27%
Motor Vehicles	15%

(f) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight line basis over the shorter of their useful lives or the lease term.

Lease payments are for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial Instruments

Recognition
Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

Financial Assets at Fair Value through Profit and Loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB139: Recognition and Measurement of Financial Instruments.

Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and Receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted on an active market and are stated at amortised cost using the effective interest rate method.

Held to Maturity Investments
These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held to maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available for Sale Financial Assets
Available for sale financial assets include any financial assets not included in the above categories. Available for sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial Liabilities
Non derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Impairment
At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. For the case of available for sale financial instruments, a prolonged decline in value of the instrument is considered to determine whether an impairment has arisen. Impairment loses are recognised in the income statement.

(h) Impairment of Assets

At each reporting date, the group reviews the carrying values of assets to determine whether there is indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Intangibles

Goodwill
Goodwill and goodwill on consideration are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include carrying amount of goodwill relating to the entity sold.

Research and Development
Expenditure during the research phase of the project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identity that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful economic life of the project.

(j) Foreign Currency Transactions and Balances

Functional and Presentational Currency
The functional currency of each group entity is measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Australia dollars which is the parent entity's functional and presentational currency.

Transactions and Balances
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group Companies
The financial results and position of foreign operations whose functional currency is different from the group's presentational currency are translated as follows:

- Assets and liabilities are translated at year end exchange rates prevailing at the reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign translation reserve in the balance sheet. These differences are recognised in the income statement for the period the operation is disposed.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employee Benefits

Annual Leave/Long Service Leave
Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the future cash outflows to be made for those benefits.

Employee Benefits on Cost
Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

Share-based Payments
Share-based compensation benefits are provided to employees via TEL.PACFIC's share based payment scheme. The fair value of share issued is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is determined by the directors in office at the date of issue.

(l) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(m) Cash and Cash Equivalents

Cash and cash equivalents include, cash on hand, deposits held at call with banks. Other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank borrowings in overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

(n) Revenue

Revenue from the sale of services is recognised upon delivery of services to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from the rendering of a service is recognised upon the delivery of the service to customers. All revenue is stated net of the amount of goods and services tax (GST).

(o) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Comparatives

Where required by accounting standards, comparative figures have been adjusted to conform to changes in the current year.

(q) Initial Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assure a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For all periods up to and including the year ended 30 June 2005, the group prepared its financial statements in accordance with Australian generally accetpted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the group is required to prepare in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 July 2005 and the significant accounting policies meeting those requirements are described in note 1. In preparing these financial statements, the group has started from an opening balance sheet as at 1 July 2004, the group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First-time Adoption of AIFRS.

This note explains the principal adjustments made by the group in restating its AGAAP balance sheet as at 1 June 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

(a) Effect of AIFRS on the balance sheet as at 1 July 2004

		Economic Entity			Company		
	Note	Previous AGAAP $	Effect of Transition to AIFRS $	AIFRS $	Previous AGAAP $	Effect of Transition to AIFRS $	AIFRS $
ASSETS							
Current Assets							
Cash and cash equivalents		995,395	-	995,395	981,673	-	981,673
Trade and other receivables		1,039,491	-	1,039,491	1,045,263	-	1,045,263
Inventories		1,835,188	-	1,835,188	1,835,188	-	1,835,188
Deferred tax asset		450,240	-	450,240	450,240	-	450,240
Other current assets		211,742	-	211,742	211,395	-	211,395
Total Current Assets		4,532,056	-	4,532,056	4,523,759	-	4,523,759
Non-Current Assets							
Financial assets		-	-	-	52,212	-	52,212
Other non-current assets		-	-	-	-	-	-
Property, plant and equipment		1,931,771	-	1,931,771	1,893,339	-	1,893,339
Intangible assets	(i)	29,324	(27,709)	1,615	850	-	850
Total Non-Current Assets		1,961,095	(27,709)	1,933,386	1,946,401	-	1,946,401
TOTAL ASSETS		6,493,151	(27,709)	6,465,442	6,470,160	-	6,470,160
LIABILITIES							
Current Liabilities							
Trade and other payables		6,466,626	-	6,466,626	6,439,153	-	6,439,153
Short term borrowings		134,032	-	134,032	134,032	-	134,032
Short term provisions		242,205	-	242,205	242,205	-	242,205
Total Current Liabilities		6,842,863	-	6,842,863	6,815,390	-	6,815,390
Non-Current Liabilities							
Long term borrowings		9,021		9,021	9,021		9,021
Total Non-Current Liabilities		9,021	-	9,021	9,021	-	9,021
TOTAL LIABILITIES		6,851,884	-	6,851,884	6,824,411	-	6,824,411
NET ASSETS/(LIABILITIES)		(358,733)	(27,709)	(386,442)	(354,251)	-	(354,251)
EQUITY							
Issued capital		4,067,252	-	4,067,252	4,067,252	-	4,067,252
Reserves		-	-	-	-	-	-
Accumulated losses	(i)	(4,425,985)	(27,709)	(4,453,694)	(4,421,503)	-	(4,421,503)
TOTAL EQUITY		(358,733)	(27,709)	(386,442)	(354,251)	-	(354,251)

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(b) Effect of AIFRS on the balance sheet as at 30 June 2005

		Economic Entity			Company		
	Note	Previous AGAAP $	Effect of Transition to AIFRS $	AIFRS $	Previous AGAAP $	Effect of Transition to AIFRS $	AIFRS $
ASSETS							
Current Assets							
Cash and cash equivalents		2,819,402	-	2,819,402	2,689,155	-	2,689,155
Trade and other receivables		513,935	-	513,935	924,812	-	924,812
Inventories		3,512,319	-	3,512,319	3,512,319	-	3,512,319
Deferred tax asset		329,685	-	329,685	329,685	-	329,685
Other current assets		570,001	-	570,001	196,817	-	196,817
Total Current Assets		7,745,342	-	7,745,342	7,652,788	-	7,652,788
Non-Current Assets							
Financial assets		-	-	-	52,212	-	52,212
Other non-current assets		-	-	-	-	-	-
Property, plant and equipment		2,452,559	-	2,452,559	2,427,957	-	2,427,957
Intangible assets	(i)	27,662	(26,047)	1,615	850	-	850
Total Non-Current Assets		2,480,221	(26,047)	2,454,174	2,481,019	-	2,481,019
TOTAL ASSETS		10,225,563	(26,047)	10,199,516	10,133,807	-	10,133,807
LIABILITIES							
Current Liabilities							
Trade and other payables		9,383,923	-	9,383,923	9,277,694	-	9,277,694
Short term borrowings		417,733	-	417,733	417,733	-	417,733
Short term provisions		242,433	-	242,433	242,433	-	242,433
Total Current Liabilities		10,044,089	-	10,044,089	9,937,860	-	9,937,860
Non-Current Liabilities							
Long term borrowings		326,642		326,642	326,642		326,642
Total Non-Current Liabilities		326,642	-	326,642	326,642	-	326,642
TOTAL LIABILITIES		10,370,731	-	10,370,731	10,264,502	-	10,264,502
NET ASSETS/(LIABILITIES)		(145,168)	(26,047)	(171,215)	(130,695)	-	(130,695)
EQUITY							
Issued capital		4,126,652	-	4,126,652	4,126,652	-	4,126,652
Reserves		(4,389)	-	(4,389)	-	-	-
Accumulated losses	(i)	(4,267,431)	(26,047)	(4,293,478)	(4,257,347)	-	(4,257,347)
TOTAL EQUITY		(145,168)	(26,047)	(171,215)	(130,695)	-	(130,695)

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(c) Effect of AIFRS on the Income Statement for the financial year ended 30 June 2005

		Economic Entity			Company		
	Note	Previous AGAAP $	Effect of Transition to AIFRS $	AIFRS $	Previous AGAAP $	Effect of Transition to AIFRS $	AIFRS $
Revenues		31,563,596	-	31,563,596	31,527,425	-	31,527,425
Cost of goods sold		23,716,869	-	23,716,869	23,716,869	-	23,716,869
Gross profit		7,846,727	-	7,846,727	7,810,556	-	7,810,556
Employee benefits expense		3,934,252	-	3,934,252	3,888,550	-	3,888,550
Finance costs		39,888	-	39,888	39,888	-	39,888
Depreciation and amortisation expense	(i)	794,252	1,662	792,590	778,760	-	778,760
Occupancy expense		335,373	-	335,373	328,301	-	328,301
Printing, postage and stationery expense		82,784	-	82,784	82,036	-	82,036
Advertising and promotion expense		555,617	-	555,617	555,431	-	555,431
Communication expense		179,408	-	179,408	177,875	-	177,875
Professional fees		78,803	-	78,803	76,682	-	76,682
Bank and merchant fees		188,653	-	188,653	188,310	-	188,310
Contract staff		471,048	-	471,048	471,048	-	471,048
Travel expense		250,626	-	250,626	234,516	-	234,516
Bad and doubtful debts expense		56,035	-	56,035	56,035	-	56,035
Other expenses		216,157	-	216,157	263,691	-	263,691
Profit before income tax		663,831	1,662	665,493	669,433	-	669,433
Income tax expense		239,764	-	239,764	239,764	-	239,764
Profit attributable to members of the parent entity		424,067	1,662	425,729	429,669	-	429,669

(d) Effect of AIFRS on the Cash Flow Statement for the financial year ended 30 June 2005

There are no material difference between the cash flow statement presented under AIFRS and the cash flow statement presented under the previous policies.

(e) Note to the reconciliations of income and equity

(i) Goodwill
Under previous AGAAP, the group amortised goodwill on a straight-line basis over 20 years. AASB 3: Business Combinaitons does not permit amortisation of goodwill and requires annual impairment testing. The group has elected to adopt the exemption available to it under AASB 1 not to apply AABS 3 to past business combinations.

The effect of the change is a decrease of goodwill of $26,047 and a corresponding increase in accumulated losses in the consolidated balance sheet as at 30 June 2005 and a decrease in goodwill amortisation expense of $1,662. There is no effect on the parent entity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Economic Entity		Company	
	2006	2005	2006	2005
	$	$	$	$
NOTE 3: REVENUE				
Operating Activities				
- Data Revenue	9,244,761	10,063,447	9,244,761	10,063,447
- Voice Revenue	26,002,120	21,234,655	26,002,120	21,234,655
- Rent Received	1,661	9,799	1,661	9,799
- Interest Received	179,338	80,908	175,070	80,738
- Sundry Income	34,782	144,175	82,771	108,174
- Retails Income	611,199	-	-	-
- Foreign Exchange Gain	-	30,612	-	30,612
	36,073,861	31,563,596	35,506,383	31,527,425
NOTE 4: PROFIT BEFORE INCOME TAX				
Depreciation of Non-current Assets	682,172	792,590	631,050	778,760
Amortisation of Research and Development	27,240	-	27,240	-
Total Depreciation and Amortisation	709,412	792,590	658,290	778,760
Finance Costs	39,758	39,888	39,758	39,888
NOTE 5: INCOME TAX EXPENSE				
The major compoments of income tax expense are:				
Current tax expense	150,037	119,209	150,037	119,209
Deferred tax resulting from the origination and reversal of temporary differences	(143,084)	120,555	(143,084)	120,555
	6,953	239,764	6,953	239,764

The prima facie income tax expense/(benefit) on profit from ordinary activities differs from the income tax benefit provided in the financial statements and is reconciled as follows:

Prima facie tax expense on profit from ordinary activities is 30%				
- Economic entity	295,233	199,149	-	-
- Parent entity	-	-	299,791	200,830
- Other members of the income tax consolidated group net of intercompany transactions	-	-	(4,558)	(1,681)
Non-allowable items	93,463	132,649	93,463	132,649
Recoupment of prior year tax losses not previously brought to account	(238,659)	(212,589)	(238,659)	(212,589)
Deferred tax asset/(not previously recognised now brought to account)	(143,084)	120,555	(143,084)	120,555
Income tax expense attributable to profit from ordinary activities	6,953	239,764	6,953	239,764
Income Tax Losses				
Deferred tax asset attributable to tax losses recognised	233,585	262,140	233,585	262,140
Deferred tax asset arising from tax losses is not brought to account at balance date as realisation of the benefit is not regarded as virtually certain	45,126	187,686	45,126	187,686

The deferred tax asset will only be obtained if:
(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
(b) the conditions for deductibility imposed by tax legislation continue to be compiled with; and
(c) no changes in tax legislation adversely affect the entity in realising the benefit.

Tax Consolidation

Effective 1 July 2003, for the purposes of income taxation, TEL.PACIFIC Pty Limited and its 100% owned subsidiaries formed a tax consolidated group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Key Management Personnel

Chiao-Heng Huang, managing director and chief executive officer
Jeffrey Ma, executive director and chief financial officer
Barry Chan, executive director and as national sales manager until 30 June 2006 and as chief operating officer from 30 June 2006
Bob Cheng, non-executive director
Huy Nugyen, sales general manager
Gavin Mattig, human resources manager

	Economic Entity		Company	
	2006	2005	2006	2005
	$	$	$	$
(b) Key Management Personnel Compensation				
Short-term Employee Benefits	513,530	479,408	513,530	479,408
Post-employment Benefits	48,937	40,861	48,937	40,861
Termination Benefits	39,078	28,232	39,078	28,232
Share-based Payments	36,829	54,000	36,829	54,000
	638,374	602,501	638,374	602,501

NOTE 7: AUDITORS REMUNERATION

Auditing the Financial Reports	37,000	32,500	37,000	32,500
Other Services	54,860	7,109	54,860	7,109
	91,860	39,609	91,860	39,609

NOTE 8: CASH AND CASH EQUIVALENTS

(a) Cash Balance				
Cash at Bank	2,889,000	2,346,241	2,762,215	2,260,138
Term Deposit	576,300	473,161	467,793	429,017
	3,465,300	2,819,402	3,230,008	2,689,155

At at the end of the financial year $576,300 (2005 - $473,161) was held in term deposits as security for bank guarantee.

(b) Reconciliation of Cash Flow from Operations with Profit after Income Tax

Profit after income tax	977,158	663,831	992,351	429,669
Non-cash flows in profit				
Depreciation expense	709,412	794,251	658,290	778,760
Share based payment	74,330	59,400	74,330	59,400
Recognition of deferred tax asset	(143,084)	-	(143,084)	-
Changes in assets and liabilities				
(Increase)/Decrease in prepayments	134,043	(386,953)	(203,485)	(115,196)
(Increase)/Decrease in trade & other debtors	838,508	(1,156,981)	1,230,496	(967,507)
Increase/(Decrease) in trade & other creditors	(351,411)	2,951,397	(250,680)	2,957,751
Increase/(Decrease) in other provisions	154,735	164,492	154,735	164,492
Movement in amounts due from subsidiaries	-	-	(655,414)	(338,846)
Movement in foreign currency translation reserve	-	(4,389)	-	-
	2,393,691	3,085,049	1,857,539	2,968,523

(c) Non-cash Financing and Investing Activities				
Share Issue	74,330	59,400	74,330	59,400

During the year 1,486,595 ordinary shares were issued at $0.05 each pursuant to the share-based payment passed by a resolution of a directors' meeting dated 30 June 2006

(d) Credit Standby Arrangements with Banks				
Credit Facility	900,000	900,000	900,000	900,000
Amount Used	618,748	861,112	618,748	861,112
Unused Credit Facility	281,252	38,888	281,252	38,888

(e) Loan Facilities				
Loan Facility	201,803	196,412	201,803	196,412
Amount Utilised	201,803	196,412	201,803	196,412
Unused Loan Facility	-	-	-	-

Credit and loan facilities are arranged with a number of banking institutions with the general terms and conditions being set and agreed to annually. Interest rates are variable and subject to adjustments

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Economic Entity 2006 $	Economic Entity 2005 $	Company 2006 $	Company 2005 $
NOTE 9: DIVIDENDS				
Unfranked Ordinary Dividend paid at 0.28 cents per share (2005: 0.20 cents per share)	371,717	265,513	371,717	265,513
NOTE 10: TRADE AND OTHER RECEIVABLES				
Current:				
Trade Debtors	1,410,764	677,338	1,407,590	674,187
Less: Provision for Doubtful Debts	(248,334)	(216,434)	(248,334)	(216,434)
Other Debtors	119,523	53,031	85,557	50,000
Amounts Due from Subsidiaries	-	-	1,072,473	417,059
	1,281,953	513,935	2,317,286	924,812
NOTE 11: INVENTORIES				
Current:				
At Cost	1,454,170	3,503,355	1,454,170	3,503,355
Consignment Stock	473,436	8,964	89,363	8,964
Other	(23,044)	-	-	-
Less: Provision for Obsolete Stock				
	1,904,562	3,512,319	1,543,533	3,512,319
NOTE 12: DEFERRED TAX ASSET				
Current:				
Timing difference	239,184	67,545	239,184	67,545
Tax losses	233,585	262,140	233,585	262,140
	472,769	329,685	472,769	329,685
NOTE 13: OTHER ASSETS				
Current:				
Prepayments	427,648	561,691	391,992	188,507
Security Deposit	9,542	8,310	9,542	8,310
	437,190	570,001	401,534	196,817
Non-current:				
Research and Development	144,410	-	144,410	-
Less: Accumulated Amortisation	(27,240)	-	(27,240)	-
	117,170	-	117,170	-
NOTE 14: FINANCIAL ASSETS				
Non-current:				
Investment	100	-	100	-
Investment in Controlled Entities	-	-	1,580,574	1,580,574
Less: Provision for Diminution	-	-	(1,528,362)	(1,528,362)
Investment in Subsidiaries	-	-	52,212	52,212

NOTE 15: CONTROLLED ENTITIES

Entities Consolidated	Country of Incorporation	Ownership Interest % 2006	Ownership Interest % 2005
Parent Entity			
TEL.PACIFIC Pty Limited	Australia		
Controlled Entities			
Held by TEL.PACIFIC Pty Limited			
Acay Network Computing Pty Ltd	Australia	100	100
Rivernet Pty Limited	Australia	100	100
Hello Card Pty Limited	Australia	100	100
TEL.PACIFIC (Hong Kong) Limited	Hong Kong	100	100

TEL.PACIFIC PTY LIMITED AND CONTROLLED ENTITIES
A.B.N. 99 073 079 268

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 16: PROPERTY, PLANT AND EQUIPMENT

	Economic Entity 2006 $	Economic Entity 2005 $	Company 2006 $	Company 2005 $
Motor Vehicles	43,637	43,637	43,637	43,637
Less: Accumulated Depreciation	(20,520)	(13,974)	(20,520)	(13,974)
	23,117	29,663	23,117	29,663
Network Equipment & Software	4,495,192	3,935,796	4,109,554	3,550,158
Less: Accumulated Depreciation	(3,114,803)	(2,693,652)	(2,731,251)	(2,311,489)
	1,380,389	1,242,144	1,378,303	1,238,669
Office Equipment & Software	1,381,875	1,114,542	882,727	672,470
Less: Accumulated Depreciation	(976,880)	(830,780)	(537,175)	(409,835)
	404,995	283,762	345,552	262,635
Office Fittings & Furniture	951,119	559,152	533,911	515,974
Less: Accumulated Depreciation	(267,864)	(170,399)	(193,715)	(127,221)
	683,255	388,753	340,196	388,753
Real Estate Properties	519,146	519,146	519,146	519,146
Less: Accumulated Depreciation	(21,818)	(10,909)	(21,818)	(10,909)
	497,328	508,237	497,328	508,237
	2,989,084	2,452,559	2,584,496	2,427,957

Movement in Carrying Amount

Consolidated	Motor Vehicles $	Network Equipment & Software $	Office Equipment & Software $	Office Fittings & Furniture $	Real Estate Properties $	Total $
Balance at the beginning of the year	29,663	1,242,144	283,762	388,753	508,237	2,452,559
Additions	-	559,397	267,333	391,967	-	1,218,697
Depreciation Expense	(6,546)	(421,152)	(146,100)	(97,465)	(10,909)	(682,172)
Balance at the end of the year	23,117	1,380,389	404,995	683,255	497,328	2,989,084

Company	Motor Vehicles $	Network Equipment & Software $	Office Equipment & Software $	Office Fittings & Furniture $	Real Estate Properties $	Total $
Balance at the beginning of the year	29,663	1,238,669	262,635	388,753	508,237	2,427,957
Additions	-	559,396	210,257	17,937	-	787,590
Depreciation Expense	(6,546)	(419,762)	(127,340)	(66,494)	(10,909)	(631,051)
Balance at the end of the year	23,117	1,378,303	345,552	340,196	497,328	2,584,496

	Economic Entity		Company	
	2006	2005	2006	2005
	$	$	$	$

NOTE 17: INTANGIBLE ASSETS

	2006	2005	2006	2005
Company Formation Expenses	1,615	1,615	850	850
Patent	2	-	2	-
	1,617	1,615	852	850

NOTE 18: TRADE AND OTHER PAYABLES

	2006	2005	2006	2005
Current:				
Creditors	2,878,900	2,262,769	2,889,344	2,124,173
Sundry Creditors	329,728	361,953	291,227	361,390
Deposit Held	69,859	83,048	69,859	83,048
Goods and Services Tax Payable	218,344	99,922	240,903	132,852
Unearned Revenue	5,513,252	6,576,231	5,513,252	6,576,231
	9,010,083	9,383,923	9,004,585	9,277,694

NOTE 19: BORROWINGS

	2006	2005	2006	2005
Short term borrowings:				
Bank Loan	251,803	240,000	251,803	240,000
Motor Vehicle Lease	6,589	2,433	6,589	2,433
	258,392	242,433	258,392	242,433
Long term borrowings:				
Mortgage Loan	293,617	320,053	293,617	320,053
Motor Vehicle Lease	-	6,589	-	6,589
	293,617	326,642	293,617	326,642

Bank loan USD150,000 is secured against (a) personal guarantees provided by Chiao-Heng Huang and Barry Chan; (b) USD150,000 promissory note drawn jointly by Chiao-Heng Huang and Cheng Che Huang and (c) fixed and floating charges over company assets.

Bank loan $50,000 is secured against (a) personal guarantees provided by Chiao-Heng Huang and Barry Chan and (b) fixed and floating charges over company assets.

Mortgage loan $293,617 is secured against the company real estate properties at Unit 213 and Car Park Lot 49, 83 Queensbridge Street, Melbourne, Victoria.

NOTE 20: PROVISIONS

	2006	2005	2006	2005
Short Term Provisions				
Income Tax Provision	150,037	119,209	150,037	119,209
Fringe Benefit Tax Provision	6,625	4,255	6,625	4,255
Leave Entitlement Provision	129,941	113,880	129,941	113,880
Lease Incentive Provision	237,495	160,660	237,495	160,660
	524,098	398,004	524,098	398,004
Long Term Provisions				
Leave Entitlement Provision	74,999	19,729	74,999	19,729
Movements in Provisions				
Income Tax Provision				
Opening balance	119,209	-	119,209	-
- additional provisions	150,037	119,209	150,037	119,209
- amount used	(119,209)	-	(119,209)	-
Closing balance	150,037	119,209	150,037	119,209
Leave Entitlement Provision (Short Term)				
Opening balance	113,880	98,832	113,880	98,832
- additional provisions.	16,061	15,048	16,061	15,048
Closing balance	129,941	113,880	129,941	113,880
Number of employees at year end	111	95	96	94

	Economic Entity 2006 $	Economic Entity 2005 $	Company 2006 $	Company 2005 $

NOTE 20: PROVISIONS (continued)

Lease Incentive Provision				
Opening balance	160,660	32,887	160,660	32,887
- additional provisions	100,285	127,773	100,285	127,773
- amount used	(23,450)	-	(23,450)	-
Closing balance	237,495	160,660	237,495	160,660

Leave Entitlement Provision (Long Term)				
Opening balance	19,729	8,602	19,729	8,602
- additional provisions	55,270	11,127	55,270	11,127
Closing balance	74,999	19,729	74,999	19,729

NOTE 21: ISSUED CAPITAL

Fully paid ordinary shares at the beginning of the reporting period	4,126,652	4,067,252	4,200,982	4,126,652
Ordinary share issued under employee share based payment scheme issued at 30 June 2006 (2005: 10 June 2005)	74,330	59,400	74,330	59,400
Fully paid ordinary shares at the end of the reporting period	4,200,982	4,126,652	4,200,982	4,126,652

134,243,000 fully paid ordinary shares (2005 - 132,756,405 shares)

The company has authorised share capital amounting to $4,200,982 ordinary shares of no par value.

Ordinary shares participate in dividends and the proceeds on winding up to the company in proportion to the number of shares held.

At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

For information relating to shares issued under share based payments scheme during the financial year, refer to Note 26 Share-based Payments.

NOTE 22: RESERVES

Foreign Currency Translation Reserve				
Reserve at the beginning of the financial year	(4,389)	-	-	-
Loss on translation of overseas controlled entities	-	(4,389)	-	-
Reserve at the end of the financial year	(4,389)	(4,389)	-	-

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled entities.

NOTE 23: CAPITAL AND LEASING COMMITMENTS

(a) Finance Lease Commitments				
- not later than 1 year	7,068	3,243	7,068	3,243
- later than 1 year but not later than 5 years	-	7,068	-	7,068
Minimum Lease Payments	7,068	10,311	7,068	10,311
Less: Future Finance Charges	(479)	(1,290)	(479)	(1,290)
Total Lease Liability	6,589	9,021	6,589	9,021

(b) Operating Lease Commitments

Non-cancelable operating leases contracted for but not capitalised in the financial statements

- not later than 1 year	704,377	183,401	386,836	183,401
- later than 1 year but not later than 5 years	1,372,314	899,713	581,769	899,713
Total Lease Liability	2,076,691	1,083,114	968,604	1,083,114

The property lease is a non-cancelable lease with a five-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that the minimum lease payments shall increase by 3.5% per annum.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 23: CAPITAL AND LEASING COMMITMENTS (continued)

	Economic Entity 2006 $	Economic Entity 2005 $	Company 2005 $	Company 2006 $
(c) Capital Expenditure Commitments				
Capital expenditure contracted for plant and equipment				
- not later than 1 year	-	41,010	-	41,010

NOTE 24: CONTINGENT LIABILITIES

There are no contingent liabilities as at the date of signing of this report.

NOTE 25: FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

The company's exposure to interest rate risk, which is the risk that the financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities as follows;

Consolidated

	Note	Weighted Average Effective Interest Rate	Floating Interest Rate $	Within Year $	1 to 5 Years $	Non-Interest Bearing $	Total $
2006							
Financial Assets							
Cash	8	5.24%	2,741,319	576,300	-	147,681	3,465,300
Receivables	10		-	-	-	1,281,953	1,281,953
Total Financial Assets			2,741,319	576,300	-	1,429,634	4,747,253
Financial Liabilities							
Bank and Mortgage Loans	19	7.09%	293,617	251,803	-	-	546,420
Trade and Sundry Creditors	18		-	-	-	9,010,083	9,010,083
Lease Liabilities	23	10.19%	-	6,589	-	-	6,589
Total Financial Liabilities			293,617	258,392	-	9,010,083	9,562,092

	Note	Weighted Average Effective Interest Rate	Floating Interest Rate $	Within Year $	1 to 5 Years $	Non-Interest Bearing $	Total $
2005							
Financial Assets							
Cash	8	5.24%	2,214,222	473,161	-	132,019	2,819,402
Receivables	10		-	-	-	513,935	513,935
Total Financial Assets			2,214,222	473,161	-	645,954	3,333,337
Financial Liabilities							
Bank and Mortgage Loans	19	7.15%	320,053	240,000	-	-	560,053
Trade and Sundry Creditors	18		-	-	-	9,383,923	9,383,923
Lease Liabilities	23	10.19%	-	2,433	6,588	-	9,021
Total Financial Liabilities			320,053	242,433	6,588	9,383,923	9,952,997

(b) Credit Risk

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

(c) Net Fair Values

The aggregate carrying values of financial assets and financial liabilities recognised at the balance date approximates the net fair values.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 26: SHARE-BASED PAYMENTS

The following share-based payment arrangments existed at 30 June 2006.

On 30 June 2006, 1,486,595 ordinary shares were granted to key employees in recognition of their effort and contributiions during the year at a price of 5 cents per share.

On 10 June 2005, 3,300,000 ordinary shares were granted to employees at a price of 1.8 cents per share.

Included under employee benefits expense in the income statement is $74,330 (2005: $59,400), and relates, in full, to equity-settled share-based payment transactions.

All shares issued under the employee share-based payment scheme are subject to dividends if issued at the time in which a dividend is declared.

NOTE 27: EVENTS AFTER THE BALANCE SHEET DATE

In view of the unsatisfactory performance, the TheFaceShop franchise in Chatswood, a beauty products retail chain operated by Acay Network Computing Pty Limited, a wholly owned subsidiary, will cease trading when the shop leasing expires in December 2006. Due to only a preliminary feasibility carried out, the company has not estimated the potential financial effect.

Other than as disclosed above, subsequent to reporting date, there has not been any matter or circumstance that has significantly affected or may significantly affect the operations of the consolidated entity or the state of affairs of the consolidated entity in future financial years.

NOTE 28: SEGMENT REPORTING

The entity operates predominantly in one industry being telecommunications services provider and in one geographical area being Australia.

NOTE 29: COMPANY DETAILS

The company is incorporated and domiciled in Australia. The registered office of the company is:

Level 7, 815 Pacific Highway, Chatswood NSW 2067, Australia

TEL.PACIFIC PTY LIMITED AND CONTROLLED ENTITIES
A.B.N. 99 073 079 268

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 30: RELATED PARTY TRANSACTIONS

Information relating to controlled entities is set out in Note 15. Transactions occurred between certain of these entities during the year, all of which are eliminated from the consolidated accounts.

TEL.PACIFIC Pty Limited has requested Jen Chiao International Corporation to obtain and to pay on its behalf the line link between two overseas telecommunications carriers. TEL.PACIFIC Pty Limited in turn reimbursed Jen Chiao International Corporation the line link expenses. The line link expenses charged during the year totalled $25,248 (2005 - $37,279) and there is no amount outstanding at the year end (2005 - $3,150). Cheng Che Huang, who is the father of a director, Chiao-Heng Huang, is the president of Jen Chiao International Corporation.

TEL.PACIFIC Pty Limited has granted an interest bearing loan at 5% per annum of $49,900 to Bolligram International Pty Limited, of which Shane Huang, who is the brother of a director, Chiao-Heng Huang, is a director and shareholder. TEL.PACIFIC Pty Limited has also paid an amount of $100 to Bolligram International Pty Limited, which had been converted into the ordinary shares in Bolligram International Pty Limited as part of the loan arrangement.

Cheng Che Huang, who is the father of a director, Chiao-Heng Huang, has provided jointly with Chiao-Heng Huang, promissory notes of USD 150,000 and $ 300,000 as part of securities for the loan facility and credit facility respectively granted to TEL.PACIFIC Pty Limited by a financial institution.

Cheng Che Huang, who is the father of a director, Chiao-Heng Huang, has charged $30,000 for services rendered according to a service agreement.

TEL.PACIFIC Pty Limited has provided assistance in the form of bank guarantee to a director, Chiao-Heng Huang, in relation to the purchase of a property. Bank fees and expenses incurred as a result of the assistance provided, totalling $3,472 were reimbursed by Chiao-Heng Huang.

During the year, TEL.PACIFIC Pty Limited has paid rental totalling $20,540 (2005 - $19,110) under normal commercial terms and conditions to a director, Jeffrey Ma, in relation to the Brisbane Office.

During the year, TEL.PACIFIC Pty Limited has paid rental totalling $13,550 (commencing from August 2005) under normal commercial terms and conditions to First Goldland Pty Ltd, of which Barry Chan, a director of TEL.PACIFIC Pty Limited, is a shareholder and a director, in relation to the Perth Office.

TEL.PACIFIC PTY LIMITED
A.B.N. 99 73 079 268

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 4 to 20, are in accordance with the Corporations Act 2001:

   a. comply with Accounting Standards as described in Note 1 to the financial statements and the Corporations Regulations 2001; and

   b. give a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with the resolution of the directors.

Managing Director ....
Chiao-Heng Huang

Dated this 27 November 2006

PKF

Chartered Accountants
& Business Advisers

INDEPENDENT AUDIT REPORT TO MEMBERS OF TEL PACIFIC PTY LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Tel Pacific Pty Limited (the company) and the economic entity, for the year ended 30 June 2006. The economic entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 3 of the financial report has not changed as at the date of providing our audit opinion.

Audit opinion

In our opinion, the financial report of Tel Pacific Pty Limited and its controlled entities is in accordance with:

(a) the Corporations Act 2001, including:

  i) giving a true and fair view of the company's and economic entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

  ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

PKF

PKF

Tim Sydenham
Partner

Dated at Sydney this 30th day of November 2006