

## Appendix 4E

### Preliminary Final Report

#### TEL.PACIFIC LIMITED

ABN 99 073 079 268

**Current Reporting Period:**

Year Ended 30 June 2008

**Previous Corresponding Period:**

Year Ended 30 June 2007

#### Results for Announcement to the Market

|                                                                                                     |      | Change |    | Amount       |
|-----------------------------------------------------------------------------------------------------|------|--------|----|--------------|
| Revenue from ordinary activities                                                                    | Up   | +30%   | To | \$47,420,107 |
| Profit from continuing operations before interest, taxation, depreciation and amortisation (EBITDA) | Up   | +20%   | To | \$4,804,279  |
| Profit from continuing operations after tax attributable to members.                                | Up   | +29%   | To | \$2,929,568  |
| Net profit for the period attributable to members.                                                  | Down | -5%    | To | \$2,929,568  |

#### Dividends

On 21 February 2008, the directors of Tel.Pacific Limited declared an annual dividend on ordinary shares. The total amount of the dividend paid was \$770,000, which represented a 100% franked dividend of 0.7 cents per share. The date of record for the annual dividend was 13 March 2008. The date of payment was 3 April 2008.

No further dividend was declared or paid with respect to the year ended 30 June 2008.

#### Brief Explanation of Results

Consolidated revenue for the year increased by 30% to \$47,420,107 (2007 - \$36,373,304). The revenue growth represented a 17% increase in organic growth, including New Zealand operations and another 13% attributable to the acquisition of C2 Comms.

The increase in profit from continuing operations after tax by 29% to \$2,929,568 (2007 - \$2,266,558) was mainly attributable to:

- increased revenue from organic growth;
- increased interest income from net cash flows from operating activities;
- tight control of expenses despite one off costs previously explained in the 31 December 2007 Half-year Report;
- the acquisition of C2 Comms on 20 November 2007

#### Net Tangible Assets Backing

|                                  | 30 June 2008 | 30 June 2007 |
|----------------------------------|--------------|--------------|
| Net tangible assets per security | \$0.05       | \$0.04       |

#### Controlled Entities

Tel.Pacific Limited established two wholly owned subsidiaries: Tel.Pacific New Zealand Limited on 22 August 2007 and Tel.Pacific Singapore Pte. Ltd on 18 December 2007.

The group does not have any interests in associates outside the group, nor does it have any interest in joint ventures.

# **TEL.PACIFIC LIMITED**

**A.B.N. 99 073 079 268**

## **Financial Report For The Year Ended 30 June 2008**

## **TEL.PACIFIC LIMITED**

| <b>CONTENTS</b>                           | <b>Page</b> |
|-------------------------------------------|-------------|
| <b>Board of Directors</b>                 | <b>2</b>    |
| <b>Corporate Governance Statement</b>     | <b>4</b>    |
| <b>Directors' Report</b>                  | <b>7</b>    |
| <b>Auditor's Independence Declaration</b> | <b>14</b>   |
| <b>Income Statement</b>                   | <b>15</b>   |
| <b>Balance Sheet</b>                      | <b>16</b>   |
| <b>Statement of Changes In Equity</b>     | <b>17</b>   |
| <b>Cash Flow Statement</b>                | <b>18</b>   |
| <b>Notes to the Financial Statements</b>  | <b>19</b>   |
| <b>Directors' Declaration</b>             | <b>60</b>   |
| <b>Independent Auditor's Report</b>       | <b>61</b>   |

**BOARD OF DIRECTORS**

**Greg McCann** B Bus, FCA, FAICD

**Non-Executive Chairman**

Appointed 2 April 2007

Greg holds a Bachelor of Business (Accounting) degree and is a Fellow of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors.

He has had 24 years of financial consulting experience with Deloitte Touche Tohmatsu. During this time he has held a variety of senior leadership positions including the roles of Managing Partner for Papua New Guinea (1987 to 1990), Managing Partner for Queensland (1990 to 1995), Managing Partner for New South Wales (1995 to 1997), Managing Director of Deloitte Consulting / ICS Australia (1979 to 2001) and more recently Associate Managing Director of Deloitte Consulting for Australia and New Zealand (1999 to 2004).

Greg has extensive experience with boards and senior executives at CEO level. He is currently the Managing Director of Executive Computing Pty Limited, an independent software and consulting services supplier to the Asia Pacific region. Greg is also Chairman of Loop Mobile Limited, a global provider of mobile social networking services and is on the board of the law firm, Lander & Rogers.

**Chiao-Heng (Charles) Huang** B Eng

**Managing Director and Chief Executive Officer**

Appointed 28 February 1996

Charles founded the Company in 1996 as an ISP whilst in his third year of studying towards a Bachelor of Mechanical Engineering degree at Sydney University. Following the deregulation of the telecommunications industry, Charles sought the opportunity to resell voice products in Australia and in 1999 he decided to transform the Company from a technology oriented ISP to a marketing and innovation-oriented player in the prepaid calling card sector.

He has successfully steered Tel.Pacific from a start-up company to its current position as a leading player in the calling card market. Charles has developed a robust business model and a cost-effective sales channel strategy.

**Barry Chan** B Eng

**Executive Director and Chief Operating Officer**

Appointed 29 September 1999

Barry holds a degree in Mechanical Engineering from the University of Sydney.

Barry joined the Company in 1999 in a customer service trainee role. He moved on to work in different areas within the Company, learning every aspect of the business. Appointed Head of Sales and Marketing in June 2004, he has played a key role in creating a very successful sales distribution channel. Prior to that Barry held positions as Product Manager, Customer Service Manager, Business Development Manager and Sales Executive.

Barry has been a significant driver in achieving the impressive growth in the prepaid telecommunication products of the Company.

## TEL.PACIFIC LIMITED

**Jeffrey Ma** B A, FCA, F Fin

**Executive Director, Chief Financial Officer and Company Secretary**

Appointed 22 November 2004

Jeffrey joined the Company in 2000 with more than 15 years financial services experience. He holds a Bachelor of Arts (Accounting and Financial Management) degree from the University of Sheffield, England and is a Fellow of the Institute of Chartered Accountants in England and Wales. He is also a Fellow of the Institute of Chartered Accountants in Australia and a Fellow of the Financial Services Institute of Australia.

He has over 11 years of financial services experience gained with Credit Lyonnais Australia Limited, a merchant bank, where he held the position of Company Secretary and Head of Finance and Administration in his last five years and was a Member of the Management Committee. Jeffrey also worked for two years in Westfield Holdings Limited; a listed property management and development company. He has an extensive professional background, having also worked for Coopers and Lybrand (now PricewaterhouseCoopers) in Hong Kong and with a chartered accounting firm in London.

**Ryan O'Hare**

**Non-Executive Director**

Appointed 2 April 2007

Ryan has over 15 years experience in the telecommunications industry. He has held a variety of senior management positions including General Manager of Professional Energy Services Pty Limited (1990 to 1994), one of Australia's leading energy and telecommunications cost management companies, managing operations in Sydney and Los Angeles.

In 1994 he co-founded the corpTEL group of companies, where he served as Chairman and Chief Executive Officer until its sale to AAPT Limited in 1998. In 1998, prior to its sale to AAPT, corpTEL was one of Australia's largest and most successful privately owned telecommunications service providers with revenues exceeding \$100m.

Ryan also co-founded ASX listed People Telecom in 2000 where he has served as a Director and Chief Executive Officer. He continues to maintain his position as one of the largest shareholders of the company.

**Stephe Wilks** BSc, LLM

**Non-Executive Director**

Appointed 2 April 2007

Stephe holds Bachelor of Science and Law degrees from Macquarie University and a Master of Laws from Sydney University.

He has over 15 years experience in the telecommunications industry in a variety of senior management roles including Regional Director Regulatory Affairs with BT Asia Pacific (1995 to 1998), Director Regulatory and Public Affairs at Optus, and Managing Director of XYZed Pty Limited (an Optus Company) (1998 to 2002), Chief Operating Officer of Nextgen Networks (2002 to 2003), Chief Operating Officer at Personal Broadband Australia and Consulting Director at NM Rothschild & Sons (2003 to 2005).

Stephe is an active non-executive director with public and private company experience. He is presently a Non-Executive Director of Longreach Group Limited, Service Stream Limited, Tel.Pacific Limited and People Telecom Limited, Chairman of Mooter Media Limited, and an Advisory Board member of the Network Insight Group.

## CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement sets out the company's current compliance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The Best Practice Recommendations are not mandatory. However, the company provides this statement in its annual reports disclosing the extent to which the company has followed the Best Practice Recommendations.

|          | Best Practice Recommendations                                                                                                                                                                                                                                                                                                                                                                              | Compliance      | Comment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1</b> | <b>Lay solid foundations for management and oversight</b>                                                                                                                                                                                                                                                                                                                                                  |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 1.1      | Formalise and disclose the functions reserved to the board and those delegated to management.                                                                                                                                                                                                                                                                                                              | Complies        | The company's Corporate Governance Policy sets out the specific responsibilities of the Board. The Board delegates responsibility for the day to day operations and running of the company to the Chief Executive Officer.                                                                                                                                                                                                                                                                     |
| <b>2</b> | <b>Structure the board to add value</b>                                                                                                                                                                                                                                                                                                                                                                    |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 2.1      | A majority of the board should be independent directors.                                                                                                                                                                                                                                                                                                                                                   | Does not comply | 50% of Board members are independent directors. The Board is of the view that the Board is structured in such a way as to add value and that the number of directors is appropriate for the size and complexity of the business.                                                                                                                                                                                                                                                               |
| 2.2      | The chairperson should be an independent director.                                                                                                                                                                                                                                                                                                                                                         | Complies        | Greg McCann is the independent non-executive Chairman.                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 2.3      | The roles of chairperson and chief executive officer should not be exercised by the same individual.                                                                                                                                                                                                                                                                                                       | Complies        | The Chairman is Greg McCann.<br>The Chief Executive Officer is Chiao-Heng (Charles) Huang.                                                                                                                                                                                                                                                                                                                                                                                                     |
| 2.4      | The board should establish a nomination committee                                                                                                                                                                                                                                                                                                                                                          | Complies        | The Board has appointed a Remuneration and Nomination committee, which comprises the independent Chairman, Chief Executive Officer and two independent non-executive directors.                                                                                                                                                                                                                                                                                                                |
| <b>3</b> | <b>Promote ethical and responsible decision-making</b>                                                                                                                                                                                                                                                                                                                                                     |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 3.1      | Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:<br><br>(a) the practices necessary to maintain confidence in the company's integrity; and<br><br>(b) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Complies        | The Board has adopted a charter that formalises the roles and responsibilities of the Board. The Corporate Governance Policy provides that the company actively promote a set of values designed to assist all personnel in their dealings with each other, competitors, customers and the community.<br>The Audit and Risk Committee overviews areas of risk in the company and provides further guidance on policies and practices required to assure confidence in the company's integrity. |
| 3.2      | Disclose the policy concerning trading in company securities by directors, officers and employees.                                                                                                                                                                                                                                                                                                         | Complies        | The Board has developed a Securities Dealing Policy that applies to trading in the company's securities by directors and employees. A summary of this policy is available on the company's website.                                                                                                                                                                                                                                                                                            |

|     |                                                                                                                                                                                                                                                                                                                                                          |          |                                                                                                                                                                                                                                                                                                                                                                |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4   | <b>Safeguard integrity in financial reporting</b>                                                                                                                                                                                                                                                                                                        |          |                                                                                                                                                                                                                                                                                                                                                                |
| 4.1 | Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the Board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards. | Complies | The Board requires the Chief Executive Officer and the Chief Financial Officer to make such a statement at the relevant time.                                                                                                                                                                                                                                  |
| 4.2 | The board should establish an audit committee.                                                                                                                                                                                                                                                                                                           | Complies | The Board has appointed an Audit and Risk Committee.                                                                                                                                                                                                                                                                                                           |
| 4.3 | Structure the audit committee so that it consists of: <ul style="list-style-type: none"> <li>• only non-executive directors</li> <li>• a majority of independent directors</li> <li>• an independent chairperson, who is not chairperson of the board</li> <li>• at least three members.</li> </ul>                                                      | Complies | The Audit and Risk Committee comprises the three non-executive directors. The chairman of the audit committee (Stephe Wilks) is not the chairman of the Board.                                                                                                                                                                                                 |
| 4.4 | The audit committee should have a formal charter.                                                                                                                                                                                                                                                                                                        | Complies | The Audit and Risk Committee's charter is set out in the company's Corporate Governance Policy.                                                                                                                                                                                                                                                                |
| 5   | <b>Make timely and balanced disclosure</b>                                                                                                                                                                                                                                                                                                               |          |                                                                                                                                                                                                                                                                                                                                                                |
| 5.1 | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.                                                                                                                                                     | Complies | <p>The company has a continuous disclosure program in place designed to ensure the factual presentation of the company's financial position.</p> <p>The Corporate Governance Policy provides that shareholders are to be kept informed of all major developments affecting the company's activities and state of affairs through announcements to the ASX.</p> |
| 6   | <b>Respect the rights of shareholders</b>                                                                                                                                                                                                                                                                                                                |          |                                                                                                                                                                                                                                                                                                                                                                |
| 6.1 | Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.                                                                                                                                                                                            | Complies | The company's Corporate Governance Policy provides that the Board is responsible for communicating with and protecting the rights and interests of all shareholders. The Policy includes a shareholder communications strategy which aims to ensure that shareholders are informed of all major developments affecting the company's activities.               |
| 6.2 | Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.                                                                                                                                               | Complies | The Board will request the external auditor to attend all future annual general meetings of the company to answer shareholder questions about the conduct of the audit and the preparation of the auditor's report.                                                                                                                                            |
| 7   | <b>Recognise and manage risk</b>                                                                                                                                                                                                                                                                                                                         |          |                                                                                                                                                                                                                                                                                                                                                                |
| 7.1 | The board or appropriate board committee should establish policies on risk oversight and management.                                                                                                                                                                                                                                                     | Complies | The Board has appointed an Audit and Risk Committee with responsibility for the effectiveness of risk management and internal compliance and control.                                                                                                                                                                                                          |

|           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |          |                                                                                                                                                                                                                                                                                                                                      |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7.2       | The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:<br><br>(a) the statement given in relation to the integrity of financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; and<br><br>(b) the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects. | Complies | The Board requires the Chief Executive Officer and Chief Financial Officer to provide such a statement at the relevant time.                                                                                                                                                                                                         |
| <b>8</b>  | <b>Encourage enhanced performance</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |          |                                                                                                                                                                                                                                                                                                                                      |
| 8.1       | Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.                                                                                                                                                                                                                                                                                                                                                                                                    | Complies | The Board has appointed a Remuneration and Nomination Committee with responsibility for reviewing the performance of the Board, Directors and senior management.                                                                                                                                                                     |
| <b>9</b>  | <b>Remunerate fairly and responsibly</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |          |                                                                                                                                                                                                                                                                                                                                      |
| 9.1       | Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.                                                                                                                                                                                                                                                                   | Complies | The executive directors' remuneration and a summary of the terms of their service arrangements were disclosed in the Prospectus, and remuneration information is disclosed in the Annual Reports each year.                                                                                                                          |
| 9.2       | The board should establish a remuneration committee.                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Complies | The Board has appointed a Remuneration and Nomination Committee comprised of the company's three non-executive directors and Chief Executive Officer.                                                                                                                                                                                |
| 9.3       | Clearly distinguish the structure of non-executive directors' remuneration from that of executives.                                                                                                                                                                                                                                                                                                                                                                                                                           | Complies | The company's constitution provides that the remuneration of non-executive directors will be not more than the aggregate fixed sum determined by a general meeting. The aggregate remuneration has been set at an amount of \$350,000 per annum.<br><br>The remuneration of all directors is disclosed in each year's Annual Report. |
| 9.4       | Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.                                                                                                                                                                                                                                                                                                                                                                                       | Complies | The company ensures that any payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.                                                                                                                                                                             |
| <b>10</b> | <b>Recognise the legitimate interests of stakeholders</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |          |                                                                                                                                                                                                                                                                                                                                      |
| 10        | Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.                                                                                                                                                                                                                                                                                                                                                                                                     | Complies | The Corporate Governance Policy provides for the specific responsibilities of the Board which includes communicating with and protecting the rights and interests of all shareholders and other stakeholders.                                                                                                                        |



## DIRECTORS' REPORT

Your directors present their report on the company for the financial year ended 30 June 2008.

### Directors

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

|                            |                                                      |
|----------------------------|------------------------------------------------------|
| Greg McCann                | Chairman (Non-executive)                             |
| Chiao-Heng (Charles) Huang | Managing Director, Chief Executive Officer           |
| Barry Chan                 | Director, Chief Operating Officer                    |
| Jeffrey Ma                 | Director, Chief Financial Officer, Company Secretary |
| Ryan O'Hare                | Director (Non-executive)                             |
| Stephe Wilks               | Director (Non-executive)                             |

All directors have been in office since the start of the financial year to the date of this report.

### Company Secretary

Nick Geddes FCA, FCIS

Nick is the principal of Australian Company Secretaries, a company secretarial practice, that he formed in 1993. He is a Vice President of the National Council of Chartered Secretaries Australia and a former Chairman of the NSW Council of that Institute. His previous experience, as a Chartered Accountant and Company Secretary, includes investment banking and development and venture capital in Europe, Africa, the Middle East and Asia.

Nick is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Institute of Chartered Secretaries Australia.

### Principal Activity

The principal activities of the consolidated entity during the financial year was the provision of pre-paid telephony products and services in Australia and New Zealand.

### Operating Result for the Financial Year

Operating revenue from continuing operations of \$47,420,107 (2007 - \$36,373,304) was 30% above that reported for the previous year.

Earnings before interest, taxation, depreciation and amortisation (**EBITDA**) from continuing operations were \$4,804,279 (2007 - \$4,011,233), up 20% on the previous year. The **net profit from continuing operations after tax** was \$2,929,568 (2007 - \$2,266,558), representing an increase of \$663,010 or 29% over the previous year. The net profit for the consolidated entity after tax was \$2,929,568 (2007 - \$3,081,602), representing a decrease of \$152,034 or 5% compared with the previous year (as that year included the extraordinary gain from the sale of a discontinued business).

### Review of Operations

In the Prospectus issued for the Company's Initial Public Offering last year, the Board indicated that it would pursue a number of growth activities. Management has executed well on those objective, including the establishment of a wholly-owned subsidiary in New Zealand on 22 August 2007 and the acquisition of the calling card business of C2 Comms on 20 November 2007.

The C2 Comms acquisition contributed \$4.8 million to operating revenue and \$300k to net profit after tax over a period of seven months. C2's financial performance was also line with the group's result, with 6% net profit after tax on operating revenue. Taking advantage of potential cost and revenue synergies, the business is now fully integrated into the Company's operations and will not be reported separately in future financial reports.

## TEL.PACIFIC LIMITED

In its initial operations, the Company's New Zealand business returned a small loss this financial year. This was primarily attributable to the cost of calls in the initial months (on better than anticipated volumes), prior to the establishment of local switches allowing the operation to benefit from the Company's broader scale and termination capability outside New Zealand.

Despite the difficult market conditions, we were able to continue our growth - with organic revenue growing by 17%. Even when including the write-off of amounts due from G-Node Networks and the establishment expenses in the initial period of investments, and a limited increase in overhead attributable to the change from a private entity to a listed public company, we maintained the efficiency ratio of operating costs to revenue at 18% - as for last year.

The group maintained very strong cash flow and produced net cash flows from operating activities of \$6,446,118 (2007 - \$4,633,679). As at 30 June 2008, the consolidated cash balance stood at \$15,100,914 (2007 - \$10,851,188) with no borrowings.

### Significant Changes in State of Affairs

As at 30 June 2008 the issued capital of the holding company was \$8,688,320 (2007 - \$4,200,982) , whilst the net assets of the consolidated entity at that date was \$9,832,494 (2007 - \$3,166,509).

### Significant Events After Balance Date

On 3 April 2008, the company announced its intention to implement an on market buyback of up to 7.82 million shares of its currently issued share capital listed on the ASX.

As at 30 June 2008, the company had bought back a total of 1,348,688 shares on market. Subsequent to that date the company bought back another total of 291,312 shares. The company may buy back of up to 6,180,000 shares, in line with the announcement by 30 November 2008.

### Future Developments and Expected Results

Likely developments in the operations of the consolidated entity and the expected results of those operations in 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 consolidated entity.

### Environmental Issues

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

### Directors' Securities Holdings

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

| Director                   | Number of<br>Ordinary<br>Shares | Number of<br>Share<br>Options |
|----------------------------|---------------------------------|-------------------------------|
| Greg McCann                | 250,000                         | 750,000                       |
| Chiao-Heng (Charles) Huang | 41,947,173                      | 4,000,000                     |
| Barry Chan                 | 7,237,716                       | 2,000,000                     |
| Jeffrey Ma                 | 2,441,073                       | 2,000,000                     |
| Ryan O'Hare                | -                               | 500,000                       |
| Stephe Wilks               | -                               | 500,000                       |

Refer to Note 24 of the financial statements for further details.

### Dividends

A fully franked final dividend of 0.7 cents per share was declared on 21 February 2008 with a record date of 13 March 2008.

### Employees

The consolidated entity employed 95 full time equivalent people as of 30 June 2008 (30 June 2007: 75).

### Share Options

The company established an Employee Option Plan (EOP) in May 2007 to assist in the recruitment, reward, retention and motivation of employees. The options granted under the plan do not give any right to participate in dividends or rights issues until shares are allotted pursuant to the exercise of the relevant option.

As at the date of this report, there were 10.75 million unissued ordinary shares under options. Refer to Note 20 (c) to the financial statements for further details of the options outstanding.

As at 30 June 2008, no shares were issued as a result of the exercise of options.

### Directors Meetings

The number of directors' meetings (including meeting of committees of directors) held during the year and the number of meetings attended by each director were as follows:

|                                   | Board<br>Meetings | Audit and<br>Risk<br>Committee | Remuneration<br>and<br>Nomination<br>Committee                                          |
|-----------------------------------|-------------------|--------------------------------|-----------------------------------------------------------------------------------------|
| <b>Number of meeting held</b>     | <b>15</b>         | <b>4</b>                       | no separate meetings held during the year, as all initial meetings held as a full Board |
| <b>Number of meeting attended</b> |                   |                                |                                                                                         |
| Greg McCann                       | 15                | 4                              |                                                                                         |
| Chiao-Heng (Charles) Huang        | 15                | n/a                            |                                                                                         |
| Barry Chan                        | 14                | n/a                            |                                                                                         |
| Jeffrey Ma                        | 15                | n/a                            |                                                                                         |
| Ryan O'Hare                       | 15                | 4                              |                                                                                         |
| Stephe Wilks                      | 14                | 4                              |                                                                                         |

n/a denotes director is not and was not a member of the committee during the year.

As at the date of this report the company had an Audit and Risk Committee and a Remuneration and Nomination Committee.

Members acting on the committee of the Board were:

#### Audit and Risk Committee

Stephe Wilks (Chairman)  
Greg McCann  
Ryan O'Hare

#### Remuneration and Nomination Committee

Greg McCann (Chairman)  
Chiao-Heng (Charles) Huang  
Ryan O'Hare  
Stephe Wilks

### Indemnification and Insurance of Directors and Officers

The company has entered into a directors' & officers' insurance contract on 30 June 2008 for the purpose of insuring against any liability that may arise from the directors carrying out their duties and responsibilities in their capacity as officers of the company. The amount of the premium was \$23,000.

## Remuneration Report

### Remuneration Policy

The Remuneration and Nomination Committee of the Board of Directors of the company is responsible for determining and recommending to the Board of Directors remuneration arrangements for the directors, the Managing Director and the senior management team. The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of the remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

### Non-executive Director Remuneration

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided among the directors as agreed. The latest determination was at the Annual General Meeting held on 20 April 2007 when shareholders approved an aggregate remuneration of \$350,000 per year payable to non-executive directors for their services as directors, including their services on a committee of directors.

The Remuneration and Nomination Committee determines payments to the non-executive directors and will review their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

Each non-executive director receives a fee for being a director of the company. An additional fee may also be paid for each board committee on which a director sits.

### Senior Manager and Executive Director Remuneration

Remuneration granted to the executive directors and other senior executives has regard to the company's financial and operational performance.

The Remuneration and Nomination Committee determines the base salary of the executive directors and will review their remuneration annually against the external market and individual contribution to the company. Performance pay based on overall corporate performance may be made available to executive team.

Each executive director and senior executive receives remuneration commensurate with their position and responsibilities within the company.

### Remuneration of Directors

The following tables set out the remuneration received by the directors of the company during the financial years ending 30 June 2008 and 30 June 2007.

| 2008                       | Short Term Benefits      |                            | Post<br>Employment   | Equity<br>Based   | Total          |
|----------------------------|--------------------------|----------------------------|----------------------|-------------------|----------------|
|                            | Salary and<br>Fees<br>\$ | Non-Cash<br>Benefits<br>\$ | Superannuation<br>\$ | Options (1)<br>\$ | \$             |
| Greg McCann                | 60,000                   | -                          | 5,400                | 116               | 65,516         |
| Chiao-Heng (Charles) Huang | 160,000                  | -                          | 14,400               | 619               | 175,019        |
| Barry Chan                 | 117,078                  | 7,537                      | 11,609               | 310               | 136,534        |
| Jeffrey Ma                 | 137,427                  | 18,342                     | 14,356               | 310               | 170,435        |
| Ryan O'Hare                | 40,000                   | -                          | 3,600                | 77                | 43,677         |
| Stephe Wilks (4)           | 50,000                   | -                          | -                    | 77                | 50,077         |
|                            | <u>564,505</u>           | <u>25,879</u>              | <u>49,365</u>        | <u>1,509</u>      | <u>641,258</u> |

| 2007                       | Short Term Benefits      |                            | Post<br>Employment   | Equity<br>Based  | Total          |
|----------------------------|--------------------------|----------------------------|----------------------|------------------|----------------|
|                            | Salary and<br>Fees<br>\$ | Non-Cash<br>Benefits<br>\$ | Superannuation<br>\$ | Shares (2)<br>\$ | \$             |
| Greg McCann (3) (5)        | 20,000                   | -                          | 1,350                | 665              | 22,015         |
| Chiao-Heng (Charles) Huang | 150,833                  | -                          | 22,742               | 67,630           | 241,205        |
| Barry Chan                 | 96,440                   | 23,560                     | 10,800               | 65,857           | 196,657        |
| Bob Cheng (6)              | 10,919                   | -                          | 983                  | 886              | 12,788         |
| Cheng-Che Huang (7)        | -                        | -                          | -                    | -                | -              |
| Jeffrey Ma                 | 95,523                   | 18,476                     | 46,530               | 87,219           | 247,748        |
| Ryan O'Hare (5)            | 9,999                    | -                          | 900                  | 443              | 11,342         |
| Stephe Wilks (4) (5)       | 15,000                   | -                          | -                    | 443              | 15,443         |
|                            | <b>398,714</b>           | <b>42,036</b>              | <b>83,305</b>        | <b>223,143</b>   | <b>747,197</b> |

(1) This represents the value of options that have been issued to the named directors or their nominees under the Employee Option Plan. The value of these options has been determined in accordance with the Australian Accounting Standards AASB 2 Share-based Payment

(2) This represents the value of options that have been issued to the named directors or their nominees under the Executive Share Ownership Plan and Employee Option Plan. The value of these options has been determined in accordance with the Australian Accounting Standards AASB 2 Share-based Payment.

(3) Included an amount of \$5,000 paid to Executive Computing Pty Limited, for procuring the services of Greg McCann to act as a Director.

(4) Director fees have been paid to High Expectations Pty Limited, for procuring the services of Stephe Wilks to act as a Director. High Expectations Pty Limited is responsible for Stephe Wilks' employment expenses, including statutory superannuation.

(5) Appointed as director on 3 April 2007

(6) Resigned as director on 23 March 2007

(7) Resigned as director on 2 March 2007

#### Details of Executives

The names and positions of each executive in the company who received the highest remuneration and having the greatest authority within the company, along with the components of their remuneration are provided below.

| Executive     | Position                      |
|---------------|-------------------------------|
| Charles Hsieh | National Sales Manager        |
| Gavin Mattig  | Group Human Resources Manager |
| Huy Nguyen    | National Sales Manager        |

## TEL.PACIFIC LIMITED

The following tables set out the remunerations received by the executives of the company during the financial years ending 30 June 2008 and 30 June 2007.

| 2008          | Short Term Benefits |                   | Post Employment | Equity Based | Total          |
|---------------|---------------------|-------------------|-----------------|--------------|----------------|
|               | Salary and Fees     | Non-Cash Benefits | Superannuation  | Options      |                |
|               | \$                  | \$                | \$              | \$           | \$             |
| Charles Hsieh | 112,218             | 23,885            | 11,871          | -            | 147,974        |
| Gavin Mattig  | 90,344              | 14,354            | 10,911          | -            | 115,609        |
| Huy Nguyen    | 132,850             | -                 | 11,579          | -            | 144,429        |
|               | <u>335,412</u>      | <u>38,239</u>     | <u>34,361</u>   | <u>-</u>     | <u>408,012</u> |

  

| 2007          | Short Term Benefits |                   | Post Employment | Equity Based  | Total          |
|---------------|---------------------|-------------------|-----------------|---------------|----------------|
|               | Salary and Fees     | Non-Cash Benefits | Superannuation  | Shares (1)    |                |
|               | \$                  | \$                | \$              | \$            | \$             |
| Charles Hsieh | 79,816              | 23,192            | 8,725           | 8,901         | 120,634        |
| Gavin Mattig  | 74,382              | 12,850            | 8,353           | -             | 95,585         |
| Huy Nguyen    | 111,761             | -                 | 10,108          | 28,327        | 150,196        |
|               | <u>265,959</u>      | <u>36,042</u>     | <u>27,186</u>   | <u>37,228</u> | <u>366,415</u> |

- (1) This represents the value of shares granted to the named executives in recognition of their effort and contributions during the year. The value of these shares has been determined in accordance with the Australian Accounting Standards AASB 2 Share-based Payment.

### Company Performance, Shareholder Wealth and Director and Executive Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy to have been effective in increasing shareholder wealth over the past two years.

The following table shows the gross revenue, profits and dividends for the last year as a listed entity and for year prior to listing, as well as the share price at the end of the financial year. Analysis of the actual figures shows an increase in revenue and profits from continuing operations. The board is of the opinion that these results can be attributed in part to the previously described remuneration policy and is satisfied that this continued improvement has lead to increased shareholder wealth over the past year.

|                                             | 2008      | 2007 (1)  |
|---------------------------------------------|-----------|-----------|
| Revenue                                     | \$47.4 m  | \$36.4m   |
| Profit from continuing operations after tax | \$2.9 m   | \$2.3 m   |
| Share price at year end                     | \$0.14    | n/a (2)   |
| Dividends paid                              | 0.7 cents | 0.9 cents |

(1) Tel.Pacific Limited was an unlisted entity for the financial year ended 30 June 2007.

(2) Official quotation of Tel.Pacific Limited's shares (ASX Code: TPC) commenced on 16 July 2007 on the ASX.

During the year there was a voluntary share buy-back. The directors felt this was an appropriate investment of excess cash as it was thought the company share price was undervalued. The company bought back on market and cancelled a total of 1,348,688 shares at an average price of \$0.14 per share. The board believes this added value in the share price and is satisfied with the result.

**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.

**Auditor's Independence Declaration**

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 14.

**Non-Audit Services**

The Board of Directors, in accordance with advice from the Audit and Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not adversely affect the objectivity and integrity of the Auditor.

PKF received or is due to receive \$32,260 for the provision of non-audit services.

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



Greg McCann  
Chairman



Chiao-Heng (Charles) Huang  
Managing Director

Dated this 25 August 2008



Chartered Accountants  
& Business Advisers

**LEAD AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

**TO THE DIRECTORS OF TEL.PACIFIC LIMITED:**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2008 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the company and the entities it controlled during the year.

PKF

**Arthur Milner**  
**Partner**

**Sydney, 25 August 2008**

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | [www.pkf.com.au](http://www.pkf.com.au)

PKF | ABN 83 236 985 726

Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia

DX 10173 | Sydney Stock Exchange | New South Wales

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# TEL.PACIFIC LIMITED

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

|                                                                            |      | Consolidated            |                         | Company                 |                         |
|----------------------------------------------------------------------------|------|-------------------------|-------------------------|-------------------------|-------------------------|
|                                                                            | Note | 2008<br>\$              | 2007<br>\$              | 2008<br>\$              | 2007<br>\$              |
| Revenue                                                                    | 2    | 47,420,107              | 36,373,304              | 46,869,157              | 36,373,304              |
| Cost of sales                                                              |      | <u>(35,295,417)</u>     | <u>(26,561,227)</u>     | <u>(34,418,603)</u>     | <u>(26,561,227)</u>     |
| Gross profit                                                               |      | 12,124,690              | 9,812,077               | 12,450,554              | 9,812,077               |
| Other income                                                               | 2    | <u>1,263,484</u>        | <u>630,093</u>          | <u>1,252,733</u>        | <u>682,318</u>          |
|                                                                            |      | 13,388,174              | 10,442,170              | 13,703,287              | 10,494,395              |
| Operating expenses                                                         | 3    | (3,391,957)             | (2,425,561)             | (3,190,327)             | (3,602,042)             |
| Employee benefits expense                                                  |      | <u>(5,191,938)</u>      | <u>(4,005,376)</u>      | <u>(5,108,761)</u>      | <u>(4,005,376)</u>      |
| Earnings before interest, taxation, depreciation and amortisation (EBITDA) |      | 4,804,279               | 4,011,233               | 5,404,199               | 2,886,977               |
| Depreciation and amortisation                                              | 4    | <u>(756,188)</u>        | <u>(620,775)</u>        | <u>(741,861)</u>        | <u>(620,775)</u>        |
| Earning before interest and taxation (EBIT)                                |      | 4,048,091               | 3,390,458               | 4,662,338               | 2,266,202               |
| Finance income/(costs)                                                     | 5    | <u>205,040</u>          | <u>(32,591)</u>         | <u>205,040</u>          | <u>(32,591)</u>         |
| Profit before income tax                                                   |      | 4,253,131               | 3,357,867               | 4,867,378               | 2,233,611               |
| Income tax expense                                                         | 6    | <u>(1,323,563)</u>      | <u>(1,091,309)</u>      | <u>(1,507,085)</u>      | <u>(739,657)</u>        |
| Profit from continuing operations after tax                                |      | 2,929,568               | 2,266,558               | 3,360,293               | 1,493,954               |
| Profit from discontinued operations after tax                              |      | -                       | 815,044                 | -                       | 1,540,153               |
| Profit attributable to members of Tel.Pacific Limited                      |      | <u><u>2,929,568</u></u> | <u><u>3,081,602</u></u> | <u><u>3,360,293</u></u> | <u><u>3,034,107</u></u> |
| Earnings per share (cents per share)                                       |      |                         |                         |                         |                         |
| Continuing operations basic earnings per share                             | 7    | 2.66                    | 2.87                    |                         |                         |
| Continuing operations diluted earnings per share                           | 7    | 2.66                    | 2.87                    |                         |                         |
| Discontinued operations basic earnings per share                           | 7    | -                       | 1.03                    |                         |                         |
| Discontinued operations diluted earnings per share                         | 7    | -                       | 1.03                    |                         |                         |
| Dividend per share                                                         | 8    | 0.70                    | 0.94                    |                         |                         |

# TEL.PACIFIC LIMITED

## BALANCE SHEET AS AT 30 JUNE 2008

|                                         |      | Consolidated |             | Company    |             |
|-----------------------------------------|------|--------------|-------------|------------|-------------|
|                                         | Note | 2008<br>\$   | 2007<br>\$  | 2008<br>\$ | 2007<br>\$  |
| ASSETS                                  |      |              |             |            |             |
| Current Assets                          |      |              |             |            |             |
| Cash and cash equivalents               | 10   | 15,100,914   | 10,851,188  | 14,222,545 | 10,808,401  |
| Trade and other receivables             | 11   | 6,223,284    | 4,260,713   | 7,513,493  | 4,316,693   |
| Inventories                             | 12   | 93,810       | 162,747     | 93,810     | 162,747     |
| Other assets                            | 13   | 3,590,244    | 894,283     | 3,493,072  | 894,283     |
| Total Current Assets                    |      | 25,008,252   | 16,168,931  | 25,322,920 | 16,182,124  |
| Non-Current Assets                      |      |              |             |            |             |
| Financial assets                        | 14   | 100          | 100         | 10,760     | 2,212       |
| Property, plant and equipment           | 16   | 2,239,451    | 2,124,780   | 2,136,299  | 2,124,780   |
| Intangible assets                       | 17   | 4,634,356    | 97,548      | 4,547,117  | 97,548      |
| Deferred tax assets                     | 6    | 650,909      | 270,984     | 447,659    | 270,984     |
| Total Non-Current Assets                |      | 7,524,816    | 2,493,412   | 7,141,835  | 2,495,524   |
| TOTAL ASSETS                            |      | 32,533,068   | 18,662,343  | 32,464,755 | 18,677,648  |
| LIABILITIES                             |      |              |             |            |             |
| Current Liabilities                     |      |              |             |            |             |
| Trade and other payables                | 18   | 20,565,586   | 14,553,518  | 20,104,325 | 14,553,518  |
| Income tax payable                      |      | 1,035,987    | 526,999     | 1,035,987  | 526,999     |
| Short term provisions                   | 19   | 369,705      | 336,092     | 366,913    | 336,092     |
| Total Current Liabilities               |      | 21,971,278   | 15,416,609  | 21,507,225 | 15,416,609  |
| Non-Current Liabilities                 |      |              |             |            |             |
| Long term provisions                    | 19   | 158,551      | 79,225      | 158,551    | 79,225      |
| Deferred tax liabilities                | 6    | 570,745      | -           | 537,871    | -           |
| Total Non-Current Liabilities           |      | 729,296      | 79,225      | 696,422    | 79,225      |
| TOTAL LIABILITIES                       |      | 22,700,574   | 15,495,834  | 22,203,647 | 15,495,834  |
| NET ASSETS                              |      | 9,832,494    | 3,166,509   | 10,261,108 | 3,181,814   |
| EQUITY                                  |      |              |             |            |             |
| Issued capital                          | 20   | 8,688,320    | 4,200,982   | 8,688,320  | 4,200,982   |
| Reserves                                | 21   | 329,377      | 310,298     | 323,438    | 321,775     |
| Retained earnings /(Accumulated losses) |      | 814,797      | (1,344,771) | 1,249,350  | (1,340,943) |
| TOTAL EQUITY                            |      | 9,832,494    | 3,166,509   | 10,261,108 | 3,181,814   |

The accompanying notes form part of these financial statements.

# TEL.PACIFIC LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

|                                                        | Note | Consolidated     |                    | Company           |                    |
|--------------------------------------------------------|------|------------------|--------------------|-------------------|--------------------|
|                                                        |      | 2008             | 2007               | 2008              | 2007               |
|                                                        |      | \$               | \$                 | \$                | \$                 |
| <b>ISSUED CAPITAL</b>                                  |      |                  |                    |                   |                    |
| Balance at start of year                               |      | 4,200,982        | 4,200,982          | 4,200,982         | 4,200,982          |
| Issuing new shares (IPO)                               |      | 5,000,000        | -                  | 5,000,000         | -                  |
| IPO costs                                              |      | (500,000)        | -                  | (500,000)         | -                  |
| Deferred tax related to IPO costs                      |      | 150,000          | -                  | 150,000           | -                  |
| Payment for shares issued under ESOP                   |      | 29,283           | -                  | 29,283            | -                  |
| Shares buyback on market                               |      | (191,375)        | -                  | (191,375)         | -                  |
| Transaction costs on shares buyback                    |      | (570)            | -                  | (570)             | -                  |
| Balance at end of year                                 | 20   | <u>8,688,320</u> | <u>4,200,982</u>   | <u>8,688,320</u>  | <u>4,200,982</u>   |
| <b>RESERVES</b>                                        |      |                  |                    |                   |                    |
| Balance at start of year                               |      | 310,298          | (4,389)            | 321,775           | -                  |
| Employee equity benefits reserve                       |      | 1,663            | 321,775            | 1,663             | 321,775            |
| Exchange differences on translating foreign operations |      | 17,416           | (7,088)            | -                 | -                  |
| Balance at end of year                                 | 21   | <u>329,377</u>   | <u>310,298</u>     | <u>323,438</u>    | <u>321,775</u>     |
| <b>RETAINED EARNINGS/ (ACCUMULATED LOSSES)</b>         |      |                  |                    |                   |                    |
| Balance at start of year                               |      | (1,344,771)      | (3,688,037)        | (1,340,943)       | (3,636,714)        |
| Profit for the year                                    |      | 2,929,568        | 3,081,602          | 3,360,293         | 3,034,107          |
| Dividend paid during the year                          | 8    | <u>(770,000)</u> | <u>(738,336)</u>   | <u>(770,000)</u>  | <u>(738,336)</u>   |
| Balance at end of year                                 |      | <u>814,797</u>   | <u>(1,344,771)</u> | <u>1,249,350</u>  | <u>(1,340,943)</u> |
| <b>TOTAL EQUITY</b>                                    |      |                  |                    |                   |                    |
|                                                        |      | <u>9,832,494</u> | <u>3,166,509</u>   | <u>10,261,108</u> | <u>3,181,814</u>   |

The accompanying notes form part of these financial statements.

**TEL.PACIFIC LIMITED**
**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2008**

|                                                       |      | Consolidated |              | Company      |              |
|-------------------------------------------------------|------|--------------|--------------|--------------|--------------|
|                                                       | Note | 2008<br>\$   | 2007<br>\$   | 2008<br>\$   | 2007<br>\$   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>           |      |              |              |              |              |
| Receipts from customers                               |      | 55,868,608   | 48,050,704   | 53,964,258   | 47,318,503   |
| Payments to suppliers and employees                   |      | (49,920,322) | (43,601,889) | (49,035,482) | (42,670,015) |
| Interest received                                     |      | 984,733      | 373,772      | 964,981      | 366,604      |
| Payment for finance costs                             |      | -            | (33,288)     | -            | (33,288)     |
| Income tax paid                                       |      | (486,901)    | (155,620)    | (486,901)    | (155,620)    |
| NET CASH PROVIDED BY OPERATING ACTIVITIES             | 10   | 6,446,118    | 4,633,679    | 5,406,856    | 4,826,184    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>           |      |              |              |              |              |
| Purchase of property, plant & equipment               |      | (741,396)    | (606,221)    | (729,848)    | (606,221)    |
| Acquisition of business                               |      | (3,301,796)  |              | (3,198,695)  |              |
| Purchase of investments                               |      | -            | -            | (8,548)      | -            |
| Proceeds from disposal of subsidiary                  |      | -            | 20,000       | -            | 20,000       |
| Proceeds from disposal of equipment                   |      | 7,000        | 975          | 104,579      | 975          |
| Loan to other party                                   |      | -            | (590,000)    | -            | (590,000)    |
| Receipts from the repayment of loans from other party |      | -            | 589,900      | -            | 589,900      |
| Proceeds from sale of data business                   |      | 250,000      | 2,500,000    | 250,000      | 2,500,000    |
| Payment for development costs                         |      | -            | (73,600)     | -            | (73,600)     |
| NET CASH PROVIDED/(USED) IN INVESTING ACTIVITIES      |      | (3,786,192)  | 1,841,054    | (3,582,512)  | 1,841,054    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>           |      |              |              |              |              |
| Proceeds from initial public offering                 |      | 2,798,500    | 2,201,500    | 2,798,500    | 2,201,500    |
| Payment from shares issued under ESOP                 |      | 29,283       | -            | 29,283       | -            |
| Repayment of borrowings                               |      | -            | (552,009)    | -            | (552,009)    |
| Payments for IPO costs                                |      | (276,038)    | -            | (276,038)    | -            |
| Payments for shares buyback on market                 |      | (191,375)    | -            | (191,375)    | -            |
| Payments for shares buyback costs                     |      | (570)        | -            | (570)        | -            |
| Dividends paid                                        |      | (770,000)    | (738,336)    | (770,000)    | (738,336)    |
| NET CASH PROVIDED BY FINANCING ACTIVITIES             |      | 1,589,800    | 911,155      | 1,589,800    | 911,155      |
| Net increase in cash held                             |      | 4,249,726    | 7,385,888    | 3,414,144    | 7,578,393    |
| Cash held at the beginning of the financial year      |      | 10,851,188   | 3,465,300    | 10,808,401   | 3,230,008    |
| CASH AT THE END OF FINANCIAL YEAR                     | 10   | 15,100,914   | 10,851,188   | 14,222,545   | 10,808,401   |

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 Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) 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.

The financial report covers Tel.Pacific Limited (formerly known as Tel.Pacific Pty Limited) as an individual parent entity and Tel.Pacific Limited and the controlled entities as a consolidated entity.

Tel.Pacific Limited is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange.

**Basis of Preparation**

The financial report has been prepared on an accrual basis and is based on historical costs and is modified by the revaluation of financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report of Tel.Pacific Limited and its controlled entities for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the Tel.Pacific Board of Directors on 25 August 2008.

**Accounting Policies**

**(a) Principles of Consolidation**

A controlled entity is any entity Tel.Pacific 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 15 to the financial statements. All controlled entities have a June year end.

All intercompany balances and transactions between entities in the consolidated 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 consolidated entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

**(b) Business Combination**

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

**(c) Income Tax**

The income tax expense represents the sum of current tax and deferred tax. Current tax is calculated on accounting profit after adjusted for any non-taxable and non-deductible items. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. It is calculated using the tax rates that have been enacted or are substantially enacted at reporting date.

The current tax and deferred tax is recognised as an expense in the income statement, except when it relates to items directly or credited to equity, in which case the current and deferred tax is also recognised directly in equity.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences, except to the extent that the deferred tax liabilities arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit or taxable income at the time of the transaction.

Deferred tax assets are recognised for all deductible temporary differences and for carrying forward of unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carrying forward of unused tax losses and tax credits can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable

## TEL.PACIFIC LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

entity or different taxable entities where it intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Effective 1 July 2003, for the purposes of income taxation, Tel.Pacific Limited and its 100% owned Australian subsidiaries formed a tax consolidated group. As part of the election to enter tax consolidation, the tax consolidated group is treated as a single entity for income tax purposes.

Tel.Pacific Limited, as the head entity in the tax consolidated group, recognises, in addition to its own transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits of all entities in the group.

#### **(d) Inventories**

Inventories are initially measured and recorded at cost and are valued 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 less any accumulated depreciation and any impairment losses.

##### **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 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 consolidated 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 consolidated 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 consolidated 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.

**(g) Financial Instruments****Recognition and Initial Measurement**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transactions costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

**Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**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.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**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 losses 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.

**(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 fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. 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.

**Acquired intangible assets**

Intangible assets acquired either as part of business combination or through separate acquisition are recorded at their fair value at the date of acquisition and recognised separately from goodwill. Management judgement are applied to determine the appropriate fair value of identifiable intangible assets.

Intangible assets that are considered to have a finite life are amortised on a straight line basis over the period of expected benefit. Intangible assets that are considered to have an indefinite life are not amortised but tested for impairment in accordance with note 1 (h) on an annual basis, or where an indication of impairment exists.

**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 identify that the project will deliver future consolidated 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 consolidated benefits over the useful consolidated 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 consolidated environment in which the entity operates. The consolidated financial statements are presented in Australian 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.

**(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.

**Superannuation**

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

**Share-based Payments**

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

**(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.

**(n) Revenue**

Revenue from the rendering of a service is recognised upon the delivery of the service to customers.

Revenue from the sale of goods is recognised upon delivery of the goods sold. If the entity is acting as an agent under a sales arrangement, the revenue will be recorded on a net basis, being the gross amount billed less the amount paid to the supplier.

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

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. The net amount of GST due, but not paid, to the Australian Taxation Office is included under payables.

Cash flows are presented in the cash flow statements on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flow.

**(p) Earnings per Share**

Basic earnings per share is calculated as net profit attributable to ordinary equity holders of Tel.Pacific Limited divided by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated as adjusted net profit attributable to ordinary equity holders of Tel.Pacific Limited divided by the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares during the period.

**(q) Comparatives**

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

**(r) Critical 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 consolidated data, obtained both externally and within the group.

The key assumption used in the calculation of commission costs in cost of sales in the Income Statement is the effective rate which represents the average rate of actual commission paid over a period of three years. The effective rate is subject to ongoing review and updated every year.

**(s) Recently Issued Accounting Standards to be Applied in Future Reporting Periods**

The accounting standards and AASB interpretations that have not been early adopted for the year ended 30 June 2008, but will be applicable to the parent entity and the consolidated entity in future reporting periods are detailed below. Apart from these standards and interpretations, the directors have considered other accounting standards that will be applicable in future periods, however they have been considered insignificant or no impact to the group.

**Segment Reporting**

AASB 8: "Operating Segments" is applicable to annual reporting periods beginning on or after 1 January 2009 and replaces AASB 114: "Segment Reporting". A related omnibus standard AASB 2007-3 "Amendments to Australian Accounting Standards arising from AASB 8" makes a number of amendments to other accounting standards as a result of AASB 8 and must be adopted at the same time.

AASB 8 requires entities to determine operating segments based on their internal management reporting structure for the reporting of their financial performance. The adoption of AASB 8 and AASB 2007-3 are not expected to have an impact on financial results or balance sheet as they are only concerned with disclosure.

**Presentation of Financial Statements**

AASB 101: "Presentation of Financial Statements (Amended)" is applicable for annual reporting periods beginning on or after 1 January 2009. A related omnibus standard AASB 2007-8 "Amendments to Australian Accounting Standards arising from AASB 101" makes a number of amendments to other accounting standards as a result of AASB 101 and must be adopted at the same time.

AASB 101 (amended) changes how an entity presents changes in equity. The amended standard also changes presentation and terminology of financial statements.

The introduction of AASB 101 (amended) will not have a material impact on the amounts presented within the financial statements but it may result in changes in the disclosures included in the financial statements.

**Borrowing Costs**

AASB 123: "Borrowing Costs (Amended)" is becoming applicable to annual reporting periods beginning on or after 1 January 2009. A related omnibus standard AASB 2007-6 "Amendments to Australian Accounting Standards arising from AASB 123" makes a number of amendments to other accounting standard as a result of the revised AASB 123 and must be adopted at the same time.

AASB 123 previously permitted entities to choose between expensing all borrowing cost and capitalising those that were attributable to the acquisition, construction or production of qualifying assets. The revised standard only permits the capitalisation treatment.

The adoption of the revised AASB 123 will result in the capitalisation of all interest expenses on qualifying assets. As the group does not currently construct or produce any qualifying assets which are financed by borrowings, the revised standard will have no impact.

**Business Combinations**

AASB 3: "Business Combinations (Amended)" is applicable for annual reporting periods beginning on or after 1 July 2009. A related omnibus standard AASB 2008-3 "Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127" makes a number of amendments to other accounting standards as a result of the revised AASB 3 and must be adopted at the same time.

AASB 3 changes the way in which an entity will account for business combinations. The key changes are:

- the definitions of a business and a business combination were amended and additional guidance was added for identifying when a group of assets constitutes a business.
- for each business combination, the acquirer must measure any non-controlling interest in the acquiree either at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets.
- the period during which changes to deferred tax benefits acquired in a business combination can be adjusted against goodwill has been limited to the measurement period; and

- an acquirer is no longer permitted to recognise contingencies acquired in a business combination that do not meet the definition of a liability.
- costs the acquirer incurs in connection with the business combination must be accounted for separately from the business combination, which usually means that they are recognised as expenses.
- consideration transferred by the acquirer, including contingent consideration, must be measured and recognised at fair value at the acquisition date.

The adoption of the revised AASB 3 is likely to result in substantial changes in the way in which the group accounts for business combinations. The group has been unable to assess the impact of this change on the financial report in the period of initial application.

#### **Consolidated and Separate Financial Statements**

AASB 127: "Consolidated and Separate Financial Statements (Amended)" is applicable for annual reporting periods beginning on or after 1 July 2009.

The revised standard requires how total comprehensive income is attributed between the owners of the parent and to the non-controlling interests; and specifies how an entity measures any gain or loss arising on the loss of control of subsidiary.

The group has been unable to assess the impact of this change on the financial report in the period of initial application.

#### **Other Standards**

AASB 2008-1 "Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations" is applicable to reporting periods beginning on or after 1 January 2009. The revised standard clarifies that vesting conditions comprise service conditions and performance conditions only and that other features of a share-based payment transactions are not vesting conditions. It also specifies that all cancellations, whether by the entity or both parties, should receive the same accounting treatment. The adoption of the revised AASB 2008-1 will not result in a change in accounting policy for the group as AASB 2008-1 only clarifies as existing treatment the group had already complied with.

AASB 2008-2 "Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation" is applicable for annual reporting periods beginning on or after 1 January 2009. The revised standard introduces an exception to the definition of financial liability to classify as equity instruments certain puttable financial instruments and certain instruments that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation of the entity. The adoption of the revised AASB 2008-2 is unlikely to have any impact on the group's financial statements.

AASB 2008-5 "Amendments to Australian Standards arising from the Annual Improvement Project" and AASB 2008-6 "Further Amendments to Australian Standards arising from the Annual Improvement Project" are applicable for annual reporting periods beginning on or after 1 January 2009. The amendments to some Standards result in accounting changes for presentation, recognition or measurement purpose, while some amendments that relate to terminology and editorial, changes are expected to have no or minimal effect on accounting. The group has not yet determined the extent of the impact, if any.

AASB 2008-7 "Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" are applicable for annual reporting periods beginning on or after 1 January 2009. The amendments to some standards result in accounting changes as below:

- (a) amends AASB 1 to allow first time adopters, in their separate financial statements, to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate;
- (b) removes from AASB 118 the requirement to deduct dividends declared out of pre-acquisition profits from the cost of an investment in a subsidiary, jointly controlled entity or associate. Therefore, all dividends from a subsidiary, jointly controlled entity or associate are recognised by the investor as income;
- (c) amends AASB 127 to require, in particular circumstances, a new parent entity established in a group reorganisation to measure the cost of its investment at the carrying amount of the share of equity items shown in the separate financial statements of the original parent at the date of the reorganisation.
- (d) amends AASB 136 to include recognising a dividend from a subsidiary, jointly controlled entity or associate, together with other evidence, as an indication that the investment in subsidiary, jointly controlled entity or may be impaired.

The group has not yet determined the extent of the impact, if any.

### **Interpretations**

AASB Interpretation 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities" is applicable to annual reporting periods beginning on or after 1 January 2009. This Interpretation provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities arising from dismantling, removing or restoring items of property, plant and equipment. The adoption of Interpretation 1 is unlikely to have a material impact on the financial report as the group has no current or expected projects which fall within the scope of this interpretation.

AASB Interpretation 4 "Determining whether an Arrangement contains a Lease (Revised)" is applicable to annual reporting periods beginning on or after 1 January 2008. The interpretation provides specific criteria for determining whether an arrangement is or contains a lease. The adoption of Interpretation 4 (revised) is unlikely to have a material impact on the financial report as the group has no current or expected arrangements which fall within the scope of this interpretation.

AASB Interpretation 12 "Service Concession Arrangements" and AASB Interpretation 129 "Service Concession Arrangements: Disclosures" are applicable to annual reporting periods beginning on or after 1 January 2009. The interpretation provides guidance to operators on the accounting and disclosures for public service concession arrangements. The adoption of Interpretations 12 and 129 is unlikely to have material impact on the financial report as the group has not entered into any transactions of the type described by this interpretation.

AASB Interpretation 13 "Customer Loyalty Programmes" is applicable to annual reporting periods beginning on or after 1 July 2008. The Interpretation prescribes the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services. The group does not have any such loyalty programmes and as such this interpretation is not expected to have any impact on the financial report.

AASB Interpretation 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" is applicable to annual reporting periods beginning on or after 1 January 2008. The interpretation aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan. This interpretation is not expected to have any impact on the financial report as the group does not have a defined benefit fund.

## **TEL.PACIFIC LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

The International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 15 "Agreements for the Construction of Real Estate" in July 2008. IFRIC 15 addresses two issues:

- (a) Is the agreement within the scope of IAS 11 or IAS 18;
- (b) When should revenue from the construction of real estate be recognised?

IFRIC 16 is applicable for annual reporting periods beginning on or after 1 January 2009. This Interpretation is not expected to impact the group.

The International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 16 "Hedge of a Net Investment in a Foreign Operation" in July 2008. IFRIC 16 provides guidance on net investment hedging including which foreign currency risks qualify for hedge accounting and what can be designated, where within the group the hedging instrument can be held, and what amounts should be reclassified to profit or loss when the foreign operation is disposed. IFRIC 16 is applicable for annual reporting periods beginning on or after 1 October 2008. This Interpretation is not expected to impact the group.



**TEL.PACIFIC LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

|                         | <b>Consolidated</b> |                   | <b>Company</b>    |                   |
|-------------------------|---------------------|-------------------|-------------------|-------------------|
|                         | <b>2008</b>         | <b>2007</b>       | <b>2008</b>       | <b>2007</b>       |
|                         | <b>\$</b>           | <b>\$</b>         | <b>\$</b>         | <b>\$</b>         |
| <b>NOTE 2: REVENUE</b>  |                     |                   |                   |                   |
| Operating Activities    |                     |                   |                   |                   |
| - Voice Revenue         | 47,388,250          | 36,286,308        | 46,837,300        | 36,286,308        |
| - VoIP Revenue          | 31,857              | 37,408            | 31,857            | 37,408            |
| - Resale Revenue        | -                   | 49,588            | -                 | 49,588            |
|                         | <u>47,420,107</u>   | <u>36,373,304</u> | <u>46,869,157</u> | <u>36,373,304</u> |
| Other Income            |                     |                   |                   |                   |
| - Interest Income       | 810,398             | 381,919           | 790,647           | 376,574           |
| - Resale Income         | 435,940             | 68,158            | 435,940           | 68,158            |
| - Sundry Income         | 17,146              | 157,032           | 17,082            | 214,602           |
| - Foreign Exchange Gain | -                   | 22,984            | 9,064             | 22,984            |
|                         | <u>1,263,484</u>    | <u>630,093</u>    | <u>1,252,733</u>  | <u>682,318</u>    |

**NOTE 3: OPERATING EXPENSES**

|                                   |                  |                  |                  |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|
| Occupancy Expense                 | 391,170          | 285,044          | 376,337          | 284,183          |
| Advertising and promotion Expense | 812,788          | 634,804          | 754,168          | 634,804          |
| Communication Expense             | 160,108          | 182,787          | 155,735          | 182,787          |
| Professional Fees                 | 280,189          | 233,973          | 262,229          | 232,496          |
| Bank and Merchant Fees            | 304,726          | 214,810          | 295,189          | 214,660          |
| Contract Staff                    | -                | 92,433           | -                | 92,433           |
| Travel Expense                    | 489,875          | 271,415          | 476,126          | 268,121          |
| Bad and Doubtful Debts Expense    | 421,596          | 148,145          | 421,364          | 148,145          |
| Subsidiary Debt Forgiveness       | -                | -                | -                | 1,146,299        |
| Operating Lease Rentals           | 48,016           | -                | 48,016           | -                |
| Foreign Exchange Losses           | 78,980           | -                | -                | -                |
| Other Expenses                    | 404,509          | 362,150          | 401,163          | 398,114          |
|                                   | <u>3,391,957</u> | <u>2,425,561</u> | <u>3,190,327</u> | <u>3,602,042</u> |

**NOTE 4: DEPRECIATION AND AMORTISATION**

|                                                              |                |                |                |                |
|--------------------------------------------------------------|----------------|----------------|----------------|----------------|
| Depreciation of Non-current Assets - Continuing Operations   | 702,745        | 561,365        | 688,418        | 561,365        |
| Amortisation of Research and Development                     | 53,443         | 59,410         | 53,443         | 59,410         |
| Total Depreciation and Amortisation                          | <u>756,188</u> | <u>620,775</u> | <u>741,861</u> | <u>620,775</u> |
| Depreciation of Non-current Assets - Discontinued Operations | <u>-</u>       | <u>188,214</u> | <u>-</u>       | <u>142,059</u> |

**NOTE 5: FINANCE INCOME/(COSTS)**

|                             |                |                 |                |                 |
|-----------------------------|----------------|-----------------|----------------|-----------------|
| Interest Expense            | -              | (32,591)        | -              | (32,591)        |
| Interest Income on IPO Fund | 205,040        | -               | 205,040        | -               |
|                             | <u>205,040</u> | <u>(32,591)</u> | <u>205,040</u> | <u>(32,591)</u> |

**TEL.PACIFIC LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

|                                                                                                                                                              | <b>Consolidated</b> |                | <b>Company</b>   |                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------|------------------|----------------|
|                                                                                                                                                              | <b>2008</b>         | <b>2007</b>    | <b>2008</b>      | <b>2007</b>    |
|                                                                                                                                                              | <b>\$</b>           | <b>\$</b>      | <b>\$</b>        | <b>\$</b>      |
| <b>NOTE 6: INCOME TAX EXPENSE</b>                                                                                                                            |                     |                |                  |                |
| <b>(a) Income Tax Expenses</b>                                                                                                                               |                     |                |                  |                |
| The major components of income tax expense are:                                                                                                              |                     |                |                  |                |
| Current tax expense                                                                                                                                          | 1,048,092           | 534,371        | 1,048,092        | 534,371        |
| Adjustment for provision of tax in prior years                                                                                                               | 23,630              | (1,789)        | 23,630           | (1,789)        |
| Deferred tax resulting from the origination and reversal of temporary differences                                                                            | 435,363             | 201,785        | 435,363          | 201,785        |
| Deferred tax income relating from the recognition of tax loss                                                                                                | (183,522)           | -              | -                | -              |
|                                                                                                                                                              | <u>1,323,563</u>    | <u>734,367</u> | <u>1,507,085</u> | <u>734,367</u> |
| Income tax/(benefit) attributable to                                                                                                                         |                     |                |                  |                |
| Continuing operations                                                                                                                                        | 1,323,563           | 1,091,309      | 1,507,085        | 739,657        |
| Discontinued operations                                                                                                                                      | -                   | (356,942)      | -                | (5,290)        |
|                                                                                                                                                              | <u>1,323,563</u>    | <u>734,367</u> | <u>1,507,085</u> | <u>734,367</u> |
| <b>(b) The prima facie income tax expense/(benefit) on profit from ordinary activities before income tax and is reconciled to the income tax as follows:</b> |                     |                |                  |                |
| Prima facie tax expense on profit from ordinary activities is 30% (2007 - 30%)                                                                               |                     |                |                  |                |
| - Consolidated entity                                                                                                                                        | 1,275,939           | 1,144,791      | -                | -              |
| - Parent entity                                                                                                                                              | -                   | -              | 1,460,213        | 1,130,542      |
| - Other members of the income tax consolidated group net of intercompany transactions                                                                        | -                   | -              | -                | 14,249         |
| Non-allowable items                                                                                                                                          | 23,994              | 105,086        | 23,242           | 105,086        |
| Non taxable gain                                                                                                                                             | -                   | (465,749)      | -                | (465,749)      |
| Adjustment for provision of tax in prior years                                                                                                               | 23,630              | (1,789)        | 23,630           | (1,789)        |
| Recoupment of prior year tax losses not previously brought to account                                                                                        | -                   | (47,972)       | -                | (47,972)       |
|                                                                                                                                                              | <u>1,323,563</u>    | <u>734,367</u> | <u>1,507,085</u> | <u>734,367</u> |
| Income tax expense attributable to profit from ordinary activities                                                                                           | <u>1,323,563</u>    | <u>734,367</u> | <u>1,507,085</u> | <u>734,367</u> |
| <b>(c) Deferred tax asset/(liability)</b>                                                                                                                    |                     |                |                  |                |
| <b>Deferred tax items recognised in income statement</b>                                                                                                     |                     |                |                  |                |
| Property, plant and equipment                                                                                                                                | (84,190)            | (53,623)       | (79,337)         | (53,623)       |
| Provision for employee entitlements                                                                                                                          | 142,500             | 79,938         | 141,663          | 79,938         |
| Allowance for doubtful debts                                                                                                                                 | 70,058              | 56,020         | 70,058           | 56,020         |
| Provision for lease incentive                                                                                                                                | 14,430              | 42,749         | 14,430           | 42,749         |
| Trade and other payables                                                                                                                                     | 143,111             | 89,644         | 114,946          | 89,644         |
| Deferred commission costs                                                                                                                                    | (478,238)           | -              | (450,217)        | -              |
| Income tax losses - see (1) below                                                                                                                            | 174,248             | -              | -                | -              |
| Other                                                                                                                                                        | (8,317)             | 56,256         | (8,317)          | 56,256         |
|                                                                                                                                                              | <u>(26,398)</u>     | <u>270,984</u> | <u>(196,774)</u> | <u>270,984</u> |

**TEL.PACIFIC LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

|                                                                | <b>Consolidated</b> |                | <b>Company</b>   |                |
|----------------------------------------------------------------|---------------------|----------------|------------------|----------------|
|                                                                | <b>2008</b>         | <b>2007</b>    | <b>2008</b>      | <b>2007</b>    |
|                                                                | <b>\$</b>           | <b>\$</b>      | <b>\$</b>        | <b>\$</b>      |
| <b>Deferred tax items recognised in equity - see (2) below</b> |                     |                |                  |                |
| IPO costs                                                      | 106,562             | -              | 106,562          | -              |
|                                                                | <u>106,562</u>      | <u>-</u>       | <u>106,562</u>   | <u>-</u>       |
| Net deferred tax asset/(liability)                             | <u>80,164</u>       | <u>270,984</u> | <u>(90,212)</u>  | <u>270,984</u> |
| Net deferred tax asset/(liability) is split as follows:        |                     |                |                  |                |
| Deferred tax assets recognised in the balance sheet            | 650,909             | 270,984        | 447,659          | 270,984        |
| Deferred tax liabilities recognised in the balance sheet       | <u>(570,745)</u>    | <u>-</u>       | <u>(537,871)</u> | <u>-</u>       |
|                                                                | <u>80,164</u>       | <u>270,984</u> | <u>(90,212)</u>  | <u>270,984</u> |

(1) A deferred tax asset for the unused tax losses of a New Zealand subsidiary to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

(2) When the underlying transactions to which the deferred tax relates are recognised directly in equity in accordance with applicable accounting standards, the temporary differences associated with these adjustments are also recognised directly in equity.

**(d) Tax Consolidation**

Effective 1 July 2003, for the purposes of income taxation, Tel.Pacific Limited and its 100% owned Australian subsidiaries formed a tax consolidated group. As part of the election to enter tax consolidation, the tax consolidated group is treated as a single entity for income tax purposes.

Tel.Pacific Limited, as the head entity in the tax consolidated group, recognises, in addition to its own transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits of all entities in the group.

|  | <b>Consolidated</b> |             |
|--|---------------------|-------------|
|  | <b>2008</b>         | <b>2007</b> |
|  | <b>\$</b>           | <b>\$</b>   |

**NOTE 7: EARNINGS PER SHARE**

|                                                                                   |           |           |
|-----------------------------------------------------------------------------------|-----------|-----------|
| Continuing operations                                                             |           |           |
| Basic earnings per share (cents per share)                                        | 2.66      | 2.87      |
| Diluted earnings per share (cents per share)                                      | 2.66      | 2.87      |
| Discontinued operations                                                           |           |           |
| Basic earnings per share (cents per share)                                        | -         | 1.03      |
| Diluted earnings per share (cents per share)                                      | -         | 1.03      |
| Earnings used in the calculation of continuing operations basic and diluted EPS   | 2,929,568 | 2,266,558 |
| Earnings used in the calculation of discontinued operations basic and diluted EPS | -         | 815,044   |

|                                                                             | <b>Number</b> | <b>Number</b> |
|-----------------------------------------------------------------------------|---------------|---------------|
| Weighted average number of ordinary shares outstanding during the year used | 109,929,041   | 78,889,315    |

None of the options on issue were considered to be potentially dilutive as the exercise price is in excess of the fair value of the shares at 30 June 2008.

**TEL.PACIFIC LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

|                                                                                         | <b>Consolidated</b> |                | <b>Company</b> |                |
|-----------------------------------------------------------------------------------------|---------------------|----------------|----------------|----------------|
|                                                                                         | <b>2008</b>         | <b>2007</b>    | <b>2008</b>    | <b>2007</b>    |
|                                                                                         | <b>\$</b>           | <b>\$</b>      | <b>\$</b>      | <b>\$</b>      |
| <b>NOTE 8: DIVIDENDS</b>                                                                |                     |                |                |                |
| Dividend on ordinary shares declared and paid during the year:                          |                     |                |                |                |
| Interim dividends Nil (2007 - Interim 90% franked at 0.17 cents per share)              | -                   | 134,243        | -              | 134,243        |
| Final 100% franked at 0.70 cents per share (2007 - 90% franked at 0.77 cents per share) | 770,000             | 604,093        | 770,000        | 604,093        |
|                                                                                         | <u>770,000</u>      | <u>738,336</u> | <u>770,000</u> | <u>738,336</u> |

|                                                                                                                                                                                          | <b>Consolidated</b> |                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------|
|                                                                                                                                                                                          | <b>2008</b>         | <b>2007</b>    |
|                                                                                                                                                                                          | <b>\$</b>           | <b>\$</b>      |
| <b>Franking Credit Balance</b>                                                                                                                                                           |                     |                |
| The amount of franking credits available for the subsequent financial year are:                                                                                                          |                     |                |
| - Franking account balance as at the end of the financial year at 30% (2007 - 30%)                                                                                                       | 146,350             | (10,551)       |
| - Franking credits that will arise from the payment of income tax payable as at the end of the financial year                                                                            | 1,036,580           | 527,592        |
| - Franking debits that will arise from the payment of dividends as at the end of the financial year                                                                                      | -                   | -              |
| - Franking credits that will arise from the receipt of dividends recognised as receivable as at the reporting date                                                                       | -                   | -              |
| - Franking credits that the entity may be prevented from distributing in the subsequent financial year                                                                                   | -                   | -              |
| The amount of franking credits available for future reporting periods:                                                                                                                   | <u>1,182,930</u>    | <u>517,041</u> |
| - Impact on franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during period | -                   | -              |
|                                                                                                                                                                                          | <u>1,182,930</u>    | <u>517,041</u> |

The tax rate at which paid dividends have been franked is 30% (2007 - 30%).

|                                             | <b>Consolidated</b> |               | <b>Company</b> |               |
|---------------------------------------------|---------------------|---------------|----------------|---------------|
|                                             | <b>2008</b>         | <b>2007</b>   | <b>2008</b>    | <b>2007</b>   |
|                                             | <b>\$</b>           | <b>\$</b>     | <b>\$</b>      | <b>\$</b>     |
| <b>NOTE 9: AUDITORS REMUNERATION</b>        |                     |               |                |               |
| Auditing or reviewing the Financial Reports | 100,897             | 59,000        | 100,897        | 59,000        |
| Taxation Services                           | 32,260              | 36,020        | 32,260         | 36,020        |
|                                             | <u>133,157</u>      | <u>95,020</u> | <u>133,157</u> | <u>95,020</u> |

**TEL.PACIFIC LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

|  | <b>Consolidated</b> |             | <b>Company</b> |             |
|--|---------------------|-------------|----------------|-------------|
|  | <b>2008</b>         | <b>2007</b> | <b>2008</b>    | <b>2007</b> |
|  | <b>\$</b>           | <b>\$</b>   | <b>\$</b>      | <b>\$</b>   |

**NOTE 10: CASH AND CASH EQUIVALENTS**
**(a) Cash Balance**

|                   |                   |                   |                   |                   |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| Cash at Bank      | 15,100,914        | 10,728,647        | 14,222,545        | 10,685,860        |
| Term Deposits (1) | -                 | 122,541           | -                 | 122,541           |
|                   | <u>15,100,914</u> | <u>10,851,188</u> | <u>14,222,545</u> | <u>10,808,401</u> |

(1) Term deposits are held as security for bank guarantee.

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

|                                                  |                  |                  |                  |                  |
|--------------------------------------------------|------------------|------------------|------------------|------------------|
| Profit after income tax                          | 2,929,568        | 3,081,602        | 3,360,293        | 3,034,107        |
| Non-cash flows in profit                         |                  |                  |                  |                  |
| Depreciation expense                             | 756,188          | 808,989          | 741,861          | 762,834          |
| Share based payment                              | 1,663            | 321,775          | 1,663            | 321,775          |
| Gain on asset disposals & discontinued business  | (4,669)          | (2,014,420)      | (4,669)          | (2,323,517)      |
| Changes in assets and liabilities                |                  |                  |                  |                  |
| (Increase)/Decrease in prepayments               | (24,959)         | 314,905          | (22,215)         | 279,249          |
| (Increase)/Decrease in trade & other debtors     | (5,268,522)      | (1,759,024)      | (6,064,743)      | (1,606,108)      |
| Increase/(Decrease) in trade & other creditors   | 7,926,494        | 3,543,721        | 7,424,849        | 2,998,550        |
| Increase/(Decrease) in other provisions          | 112,939          | 343,219          | 110,147          | 343,219          |
| Movement in amounts due from subsidiaries        | -                | -                | (140,330)        | 1,016,075        |
| Movement in foreign currency translation reserve | 17,416           | (7,088)          | -                | -                |
|                                                  | <u>6,446,118</u> | <u>4,633,679</u> | <u>5,406,856</u> | <u>4,826,184</u> |

**(c) Non-cash Financing and Investing Activities**

|             |   |           |   |           |
|-------------|---|-----------|---|-----------|
| Share Issue | - | 1,088,000 | - | 1,088,000 |
|-------------|---|-----------|---|-----------|

On 24 May 2007, the company issued 6.8 million shares at \$0.16 per share, amounting to a total of \$1,088,000, to a number of employees including executive directors pursuant to an Executive Share Ownership Plan, financed by the company. For accounting purposes, the share issue has been treated as option granted and the value of the options vested has been accounted for and included in the result for the period.

**(d) Credit Standby Arrangements with Banks**

|                        |   |          |   |          |
|------------------------|---|----------|---|----------|
| Credit Facility        | - | 105,696  | - | 105,696  |
| Amount Used            | - | (46,782) | - | (46,782) |
| Unused Credit Facility | - | 58,914   | - | 58,914   |

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.

**TEL.PACIFIC LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

|                                             | <b>Consolidated</b> |                  | <b>Company</b>   |                  |
|---------------------------------------------|---------------------|------------------|------------------|------------------|
|                                             | <b>2008</b>         | <b>2007</b>      | <b>2008</b>      | <b>2007</b>      |
|                                             | <b>\$</b>           | <b>\$</b>        | <b>\$</b>        | <b>\$</b>        |
| <b>NOTE 11: TRADE AND OTHER RECEIVABLES</b> |                     |                  |                  |                  |
| Current:                                    |                     |                  |                  |                  |
| Trade Debtors                               | 2,756,241           | 2,180,539        | 2,729,995        | 2,180,539        |
| Less: Allowance for Doubtful Debts          | (285,217)           | (186,733)        | (285,217)        | (186,733)        |
| Unbilled Receivables - see Note 18 (a)      | 2,976,196           | 2,191,925        | 2,904,615        | 2,191,925        |
| Bank Deposits (1)                           | 663,326             | -                | 663,326          | -                |
| Other Debtors                               | 112,738             | 74,982           | 105,032          | 74,564           |
| Amounts Due from Subsidiaries               | -                   | -                | 1,395,742        | 56,398           |
|                                             | <u>6,223,284</u>    | <u>4,260,713</u> | <u>7,513,493</u> | <u>4,316,693</u> |

(1) Bank deposits represent term deposits which are held as security for bank guarantee.

The movement in the allowance for doubtful debts in respect of trade receivables in detailed below:

|                        |                  |                  |                  |                  |
|------------------------|------------------|------------------|------------------|------------------|
| Opening balance        | (186,733)        | (248,334)        | (186,733)        | (248,334)        |
| - additional allowance | (142,335)        | (131,605)        | (142,335)        | (131,605)        |
| - amounts used         | 20,668           | 170,832          | 20,668           | 170,832          |
| - amounts reversed     | 23,183           | 22,374           | 23,183           | 22,374           |
| Closing balance        | <u>(285,217)</u> | <u>(186,733)</u> | <u>(285,217)</u> | <u>(186,733)</u> |

**Credit Policy**

The group requires customers to pay in accordance with agreed terms. Trade debtors are non-interesting bearing and are generally on 30-90 days terms. None of the trade receivables are past due. A provision for impairment is recognised when there is objective evidence that an individual trade debtor is impaired. All credit and recovery risk associated with trade receivables has been provided for in the balance sheet.

**NOTE 12: INVENTORIES**

|             |               |                |               |                |
|-------------|---------------|----------------|---------------|----------------|
| Current:    |               |                |               |                |
| Inventories | <u>93,810</u> | <u>162,747</u> | <u>93,810</u> | <u>162,747</u> |

**NOTE 13: OTHER ASSETS**

|                           |                  |                |                  |                |
|---------------------------|------------------|----------------|------------------|----------------|
| Current:                  |                  |                |                  |                |
| Deferred Commission Costs | 3,385,362        | 550,667        | 3,291,957        | 550,667        |
| Prepayments               | 149,352          | 336,704        | 146,608          | 336,704        |
| Security Deposit          | 55,530           | 6,912          | 54,507           | 6,912          |
|                           | <u>3,590,244</u> | <u>894,283</u> | <u>3,493,072</u> | <u>894,283</u> |

**TEL.PACIFIC LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

|                                            | <b>Consolidated</b> |             | <b>Company</b> |              |
|--------------------------------------------|---------------------|-------------|----------------|--------------|
|                                            | <b>2008</b>         | <b>2007</b> | <b>2008</b>    | <b>2007</b>  |
|                                            | <b>\$</b>           | <b>\$</b>   | <b>\$</b>      | <b>\$</b>    |
| <b>NOTE 14: FINANCIAL ASSETS</b>           |                     |             |                |              |
| Investment                                 | 100                 | 100         | 100            | 100          |
| Unlisted Controlled Entities - see Note 15 |                     |             |                |              |
| Investment in Subsidiaries at Cost         | -                   | -           | 10,660         | 2,112        |
|                                            | <u>100</u>          | <u>100</u>  | <u>10,760</u>  | <u>2,212</u> |

Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

The fair value of unlisted available-for-sale financial assets cannot be really measured as variability in the range of reasonable fair value estimates is significant. As a result, all unlisted investments are reflected at cost. Management has determined that the estimate of total consolidated fair values for unlisted investments would be within the range of \$10,760 to \$200,000 at 30 June 2008. Unlisted available-for-sale financial assets exist within active markets and could be disposed of if required. No intention to dispose of any unlisted available-for-sale financial assets existed at 30 June 2008.

**TEL.PACIFIC LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**
**NOTE 15: CONTROLLED ENTITIES**

|                                           | Country of<br>Incorporation | Holding   |           | Investment    |              |
|-------------------------------------------|-----------------------------|-----------|-----------|---------------|--------------|
|                                           |                             | 2008<br>% | 2007<br>% | 2008<br>\$    | 2007<br>\$   |
| Parent Entity                             |                             |           |           |               |              |
| Tel.Pacific Limited                       | Australia                   |           |           |               |              |
| Controlled Entities - Consolidated Entity |                             |           |           |               |              |
| Interest at Cost                          |                             |           |           |               |              |
| Rivernet Pty Limited                      | Australia                   | 100%      | 100%      | 12            | 12           |
| Hello Card Pty Limited                    | Australia                   | 100%      | 100%      | 100           | 100          |
| Tel.Pacific ESOP Pty Limited              | Australia                   | 100%      | -         | 1             | -            |
| Tel.Pacific (Hong Kong) Limited           | Hong Kong                   | 100%      | 100%      | 2,000         | 2,000        |
| Tel.Pacific New Zealand Limited           | New Zealand                 | 100%      | -         | 8,546         | -            |
| Tel.Pacific Singapore Pte Limited         | Singapore                   | 100%      | -         | 1             | -            |
|                                           |                             |           |           | <u>10,660</u> | <u>2,112</u> |

| Consolidated |      | Company |      |
|--------------|------|---------|------|
| 2008         | 2007 | 2008    | 2007 |
| \$           | \$   | \$      | \$   |

**NOTE 16: PROPERTY, PLANT AND EQUIPMENT**

|                                |                  |                  |                  |                  |
|--------------------------------|------------------|------------------|------------------|------------------|
| Motor Vehicles                 | 53,833           | 53,833           | 53,833           | 53,833           |
| Less: Accumulated Depreciation | (35,932)         | (27,858)         | (35,932)         | (27,858)         |
|                                | <u>17,901</u>    | <u>25,975</u>    | <u>17,901</u>    | <u>25,975</u>    |
| Network Equipment & Software   | 3,133,611        | 2,923,359        | 3,022,092        | 2,923,359        |
| Less: Accumulated Depreciation | (1,961,471)      | (1,898,891)      | (1,948,704)      | (1,898,891)      |
|                                | <u>1,172,140</u> | <u>1,024,468</u> | <u>1,073,388</u> | <u>1,024,468</u> |
| Office Equipment & Software    | 1,045,473        | 926,167          | 1,043,559        | 926,167          |
| Less: Accumulated Depreciation | (761,787)        | (700,422)        | (761,219)        | (700,422)        |
|                                | <u>283,686</u>   | <u>225,745</u>   | <u>282,340</u>   | <u>225,745</u>   |
| Office Fittings & Furniture    | 631,258          | 626,618          | 627,928          | 626,618          |
| Less: Accumulated Depreciation | (341,044)        | (264,445)        | (340,768)        | (264,445)        |
|                                | <u>290,214</u>   | <u>362,173</u>   | <u>287,160</u>   | <u>362,173</u>   |
| Real Estate Properties         | 519,146          | 519,146          | 519,146          | 519,146          |
| Less: Accumulated Depreciation | (43,636)         | (32,727)         | (43,636)         | (32,727)         |
|                                | <u>475,510</u>   | <u>486,419</u>   | <u>475,510</u>   | <u>486,419</u>   |
|                                | <u>2,239,451</u> | <u>2,124,780</u> | <u>2,136,299</u> | <u>2,124,780</u> |



**TEL.PACIFIC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**Movement in Carrying Amount**

| <b>2008<br/>Consolidated</b>              | <b>Motor<br/>Vehicles<br/>\$</b> | <b>Network<br/>Equipment<br/>&amp; Software<br/>\$</b> | <b>Office<br/>Equipment<br/>&amp; Software<br/>\$</b> | <b>Office<br/>Fittings<br/>&amp; Furniture<br/>\$</b> | <b>Real Estate<br/>Properties<br/>\$</b> | <b>Total<br/>\$</b> |
|-------------------------------------------|----------------------------------|--------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|------------------------------------------|---------------------|
| Balance at the beginning of the year      | 25,975                           | 1,024,468                                              | 225,745                                               | 362,173                                               | 486,419                                  | 2,124,780           |
| Additions                                 | -                                | 542,936                                                | 193,820                                               | 4,640                                                 | -                                        | 741,396             |
| Acquisition through business combinations | -                                | 84,263                                                 | 1,598                                                 | -                                                     | -                                        | 85,861              |
| Disposal                                  | -                                | -                                                      | (2,331)                                               | -                                                     | -                                        | (2,331)             |
| Depreciation Expense                      | (8,074)                          | (472,017)                                              | (135,146)                                             | (76,599)                                              | (10,909)                                 | (702,745)           |
| Foreign currency exchange difference      | -                                | (7,510)                                                | -                                                     | -                                                     | -                                        | (7,510)             |
| Balance at the end of the year            | 17,901                           | 1,172,140                                              | 283,686                                               | 290,214                                               | 475,510                                  | 2,239,451           |

**Company**

|                                           |         |           |           |          |          |           |
|-------------------------------------------|---------|-----------|-----------|----------|----------|-----------|
| Balance at the beginning of the year      | 25,975  | 1,024,468 | 225,745   | 362,173  | 486,419  | 2,124,780 |
| Additions                                 | -       | 535,033   | 193,505   | 1,310    | -        | 729,848   |
| Acquisition through business combinations | -       | 70,000    | -         | -        | -        | 70,000    |
| Disposal                                  | -       | (97,580)  | (2,331)   | -        | -        | (99,911)  |
| Depreciation Expense                      | (8,074) | (458,533) | (134,579) | (76,323) | (10,909) | (688,418) |
| Balance at the end of the year            | 17,901  | 1,073,388 | 282,340   | 287,160  | 475,510  | 2,136,299 |

| <b>2007<br/>Consolidated</b>         | <b>Motor<br/>Vehicles<br/>\$</b> | <b>Network<br/>Equipment<br/>&amp; Software<br/>\$</b> | <b>Office<br/>Equipment<br/>&amp; Software<br/>\$</b> | <b>Office<br/>Fittings<br/>&amp; Furniture<br/>\$</b> | <b>Real Estate<br/>Properties<br/>\$</b> | <b>Total<br/>\$</b> |
|--------------------------------------|----------------------------------|--------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|------------------------------------------|---------------------|
| Balance at the beginning of the year | 23,117                           | 1,380,389                                              | 404,995                                               | 683,255                                               | 497,328                                  | 2,989,084           |
| Additions                            | 10,196                           | 452,377                                                | 50,941                                                | 92,707                                                | -                                        | 606,221             |
| Disposal                             | -                                | (358,943)                                              | (53,237)                                              | (308,766)                                             | -                                        | (720,946)           |
| Depreciation Expense                 | (7,338)                          | (449,355)                                              | (176,954)                                             | (105,023)                                             | (10,909)                                 | (749,579)           |
| Balance at the end of the year       | 25,975                           | 1,024,468                                              | 225,745                                               | 362,173                                               | 486,419                                  | 2,124,780           |

**Company**

|                                      |         |           |           |          |          |           |
|--------------------------------------|---------|-----------|-----------|----------|----------|-----------|
| Balance at the beginning of the year | 23,117  | 1,378,303 | 345,552   | 340,196  | 497,328  | 2,584,496 |
| Additions                            | 10,196  | 452,377   | 50,941    | 92,707   | -        | 606,221   |
| Disposal                             | -       | (357,206) | (5,307)   | -        | -        | (362,513) |
| Depreciation Expense                 | (7,338) | (449,006) | (165,441) | (70,730) | (10,909) | (703,424) |
| Balance at the end of the year       | 25,975  | 1,024,468 | 225,745   | 362,173  | 486,419  | 2,124,780 |

**TEL.PACIFIC LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

|                                                                                      | <b>Consolidated</b>     |                      | <b>Company</b>          |                      |
|--------------------------------------------------------------------------------------|-------------------------|----------------------|-------------------------|----------------------|
|                                                                                      | <b>2008</b>             | <b>2007</b>          | <b>2008</b>             | <b>2007</b>          |
|                                                                                      | <b>\$</b>               | <b>\$</b>            | <b>\$</b>               | <b>\$</b>            |
| <b>NOTE 17: INTANGIBLE ASSETS</b>                                                    |                         |                      |                         |                      |
| <b>(a) Reconciliation of Carrying Amounts at the Beginning and End of the Period</b> |                         |                      |                         |                      |
| Goodwill                                                                             | 4,480,251               | -                    | 4,393,012               | -                    |
| Accumulated impaired losses                                                          | -                       | -                    | -                       | -                    |
|                                                                                      | <u>4,480,251</u>        | <u>-</u>             | <u>4,393,012</u>        | <u>-</u>             |
| Company Formation Expenses                                                           | 850                     | 850                  | 850                     | 850                  |
| Patent                                                                               | <u>2</u>                | <u>2</u>             | <u>2</u>                | <u>2</u>             |
|                                                                                      | <u>852</u>              | <u>852</u>           | <u>852</u>              | <u>852</u>           |
| Trademarks                                                                           | <u>110,000</u>          | <u>-</u>             | <u>110,000</u>          | <u>-</u>             |
|                                                                                      | <u>110,000</u>          | <u>-</u>             | <u>110,000</u>          | <u>-</u>             |
| Research and Development                                                             | 160,330                 | 160,330              | 160,330                 | 160,330              |
| Less: Accumulated Amortisation                                                       | <u>(117,077)</u>        | <u>(63,634)</u>      | <u>(117,077)</u>        | <u>(63,634)</u>      |
|                                                                                      | <u>43,253</u>           | <u>96,696</u>        | <u>43,253</u>           | <u>96,696</u>        |
|                                                                                      | <u><u>4,634,356</u></u> | <u><u>97,548</u></u> | <u><u>4,547,117</u></u> | <u><u>97,548</u></u> |

**Movement in Carrying Amount**

|                                           |                         |                      |                         |                      |
|-------------------------------------------|-------------------------|----------------------|-------------------------|----------------------|
| Goodwill                                  |                         |                      |                         |                      |
| Balance at the beginning of the year      | -                       | -                    | -                       | -                    |
| Acquisition through business combinations | <u>4,480,251</u>        | <u>-</u>             | <u>4,393,012</u>        | <u>-</u>             |
| Balance at the end of the year            | <u><u>4,480,251</u></u> | <u><u>-</u></u>      | <u><u>4,393,012</u></u> | <u><u>-</u></u>      |
| Trademarks                                |                         |                      |                         |                      |
| Balance at the beginning of the year      | -                       | -                    | -                       | -                    |
| Acquisition through business combinations | <u>110,000</u>          | <u>-</u>             | <u>110,000</u>          | <u>-</u>             |
| Balance at the end of the year            | <u><u>110,000</u></u>   | <u><u>-</u></u>      | <u><u>110,000</u></u>   | <u><u>-</u></u>      |
| Research and Development                  |                         |                      |                         |                      |
| Balance at the beginning of the year      | 96,696                  | 117,170              | 96,696                  | 117,170              |
| Additions                                 | -                       | 73,600               | -                       | 73,600               |
| Disposal                                  | -                       | (34,664)             | -                       | (34,664)             |
| Amortisation Expense                      | <u>(53,443)</u>         | <u>(59,410)</u>      | <u>(53,443)</u>         | <u>(59,410)</u>      |
| Balance at the end of the year            | <u><u>43,253</u></u>    | <u><u>96,696</u></u> | <u><u>43,253</u></u>    | <u><u>96,696</u></u> |

**(b) Description of the Group's Intangible Assets and Goodwill**

After initial recognition, goodwill acquired through business combinations is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Trademarks and development costs are carried at cost less accumulated amortisation and accumulated impairment losses. These intangible assets have been assessed as having a finite life and is amortised using the straight-line method over the periods disclosed in Note 1. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

**TEL.PACIFIC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**(c) Impairment Testing of Goodwill**

As at 30 June 2008, the carrying amount of goodwill was \$4,480,251.

Goodwill acquired through business combinations has been allocated to two individual cash generating units (CGU) for impairment testing as follow:

**Australian CGU**

Tel.Pacific Limited acquired the business assets of C2 Comms and Prepaid World Pty Limited on 20 November 2007 and 20 June 2008 respectively.

The recoverable amount of the Australian CGU has been determined based on the fair value less cost to sell methodology using cash flow projections based on financial budgets approved by management covering a five year period. The pre-tax discount rate applied to the cash flow projections is 10.36%. The model did not incorporate a growth rate beyond the five year period.

The calculation of fair value less cost to sell is most sensitive to the following key assumptions:

- usage rates and margins being maintained at rates achieved in the recent past; and
- the discount rate applied to cash flow projections

Management consider that any reasonable changes in the key assumptions to the cash flow projections would not result in the carrying value of the Australian CGU exceeding its recoverable amount.

**New Zealand CGU**

Tel.Pacific Limited through its wholly-owned subsidiary acquired the business assets of Teligate (NZ) Limited on 29 October 2007.

The recoverable amount of the New Zealand CGU has been determined based on the fair value less cost to sell methodology using cash flow projections based on financial budgets approved by management covering a five year period. The pre-tax discount rate applied to the cash flow projections is 11.47%. The model did not incorporate a growth rate beyond the five year period.

The calculation of fair value less cost to sell is most sensitive to the following key assumptions:

- usage rates and margins being maintained at rates achieved in the recent past; and
- the discount rate applied to cash flow projections

Management consider that any reasonable changes in the key assumptions to the cash flow projections would not result in the carrying value of the Australian CGU exceeding its recoverable amount.

**TEL.PACIFIC LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

|                                          | <b>Consolidated</b> |                   | <b>Company</b>    |                   |
|------------------------------------------|---------------------|-------------------|-------------------|-------------------|
|                                          | <b>2008</b>         | <b>2007</b>       | <b>2008</b>       | <b>2007</b>       |
|                                          | <b>\$</b>           | <b>\$</b>         | <b>\$</b>         | <b>\$</b>         |
| <b>NOTE 18: TRADE AND OTHER PAYABLES</b> |                     |                   |                   |                   |
| Current:                                 |                     |                   |                   |                   |
| Trade Creditors                          | 2,850,724           | 2,713,756         | 2,832,693         | 2,713,756         |
| Other Creditors                          | 1,374,318           | -                 | 1,374,317         | -                 |
| Accrued expenses                         | 945,446             | 689,573           | 933,154           | 689,573           |
| Sundry Creditors                         | 226,944             | 64,528            | 221,799           | 64,528            |
| Goods and Services Tax Payable           | 510,625             | 440,914           | 498,723           | 440,914           |
| IPO Trust Account                        | -                   | 2,201,500         | -                 | 2,201,500         |
| Unearned Revenue - see Note 18 (a)       | 14,657,529          | 8,443,247         | 14,243,639        | 8,443,247         |
|                                          | <u>20,565,586</u>   | <u>14,553,518</u> | <u>20,104,325</u> | <u>14,553,518</u> |

(a) Unearned revenue comprises:

|                                   |                   |                  |                   |                  |
|-----------------------------------|-------------------|------------------|-------------------|------------------|
| - Revenue Received in Advance (1) | 8,983,447         | 4,332,622        | 8,667,384         | 4,332,622        |
| - Trade Debtors (2)               | 2,697,886         | 1,918,700        | 2,671,640         | 1,918,700        |
| - Unbilled Receivables (3)        | 2,976,196         | 2,191,925        | 2,904,615         | 2,191,925        |
|                                   | <u>14,657,529</u> | <u>8,443,247</u> | <u>14,243,639</u> | <u>8,443,247</u> |

(1) Revenue received in advance represents the unused component of paid calling cards.

(2) Trade debtors represent the used component of unpaid calling cards - see Note 11.

(3) Unbilled receivable represent the unused component of unpaid calling cards - see Note 11.

**NOTE 19: PROVISIONS**
**Short Term Provisions**

|                              |                |                |                |                |
|------------------------------|----------------|----------------|----------------|----------------|
| Fringe Benefit Tax Provision | 5,153          | 6,362          | 5,153          | 6,362          |
| Leave Entitlement Provision  | 316,451        | 187,233        | 313,659        | 187,233        |
| Lease Incentive Provision    | 48,101         | 142,497        | 48,101         | 142,497        |
|                              | <u>369,705</u> | <u>336,092</u> | <u>366,913</u> | <u>336,092</u> |

**Long Term Provisions**

|                             |                |               |                |               |
|-----------------------------|----------------|---------------|----------------|---------------|
| Leave Entitlement Provision | <u>158,551</u> | <u>79,225</u> | <u>158,551</u> | <u>79,225</u> |
|-----------------------------|----------------|---------------|----------------|---------------|

**Movements in Provisions**

(a) Leave Entitlement Provision (Short Term)

|                         |                |                |                |                |
|-------------------------|----------------|----------------|----------------|----------------|
| Opening balance         | 187,233        | 129,941        | 187,233        | 129,941        |
| - additional provisions | 209,782        | 57,292         | 206,990        | 57,292         |
| - amount used           | (80,564)       | -              | (80,564)       | -              |
| Closing balance         | <u>316,451</u> | <u>187,233</u> | <u>313,659</u> | <u>187,233</u> |

(b) Lease Incentive Provision

|                 |               |                |               |                |
|-----------------|---------------|----------------|---------------|----------------|
| Opening balance | 142,497       | 237,495        | 142,497       | 237,495        |
| - amount used   | (94,396)      | (94,998)       | (94,396)      | (94,998)       |
| Closing balance | <u>48,101</u> | <u>142,497</u> | <u>48,101</u> | <u>142,497</u> |

(c) Leave Entitlement Provision (Long Term)

|                         |                |               |                |               |
|-------------------------|----------------|---------------|----------------|---------------|
| Opening balance         | 79,225         | 74,999        | 79,225         | 74,999        |
| - additional provisions | 79,326         | 4,226         | 79,326         | 4,226         |
| Closing balance         | <u>158,551</u> | <u>79,225</u> | <u>158,551</u> | <u>79,225</u> |

**TEL.PACIFIC LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

|                                                                                                                                                                                                        | Consolidated and Company |                  |                   |                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------|-------------------|------------------|
|                                                                                                                                                                                                        | 2008                     |                  | 2007              |                  |
|                                                                                                                                                                                                        | Number                   | \$               | Number            | \$               |
| <b>NOTE 20: ISSUED CAPITAL</b>                                                                                                                                                                         |                          |                  |                   |                  |
| <b>(a) Ordinary Shares</b>                                                                                                                                                                             |                          |                  |                   |                  |
| Issued and Fully Paid                                                                                                                                                                                  | 101,851,312              | 8,659,037        | 78,200,000        | 4,200,982        |
| Issued and Partially Paid - see (1) below                                                                                                                                                              | 6,800,000                | 29,283           | 6,800,000         | -                |
|                                                                                                                                                                                                        | <u>108,651,312</u>       | <u>8,688,320</u> | <u>85,000,000</u> | <u>4,200,982</u> |
| <b>(b) Movements in Ordinary Shares on Issue</b>                                                                                                                                                       |                          |                  |                   |                  |
| Balance at the beginning of the year                                                                                                                                                                   | 85,000,000               | 4,200,982        | 134,243,000       | 4,200,982        |
| Adjustment for consolidation of ordinary shares on issue on the basis of 1 new share for each existing 1.716 shares pursuant to the resolution approved at the Annual General Meeting on 20 April 2007 | -                        | -                | (56,043,000)      | -                |
| Issue of ordinary shares on 24 May 2007 under Executive Share Ownership Plan (ESOP) - see (1) below                                                                                                    | -                        | -                | 6,800,000         | -                |
| Issue of 25,000,000 ordinary shares at \$0.20 per share through the initial public offering on 5 July 2007                                                                                             | 25,000,000               | 5,000,000        | -                 | -                |
| IPO costs associated with the above shares issued                                                                                                                                                      | -                        | (500,000)        | -                 | -                |
| Deferred tax recognised related to IPO costs                                                                                                                                                           | -                        | 150,000          | -                 | -                |
| Payment from shares issued under ESOP                                                                                                                                                                  | -                        | 29,283           | -                 | -                |
| Shares buyback on market                                                                                                                                                                               | (1,348,688)              | (191,375)        | -                 | -                |
| Transaction costs related to shares buyback                                                                                                                                                            | -                        | (570)            | -                 | -                |
| Balance at the end of the year                                                                                                                                                                         | <u>108,651,312</u>       | <u>8,688,320</u> | <u>85,000,000</u> | <u>4,200,982</u> |

(1) The issue of shares under ESOP has been treated as issue of share options in accordance with the pronouncement of the International Financial Reporting Interpretations Committee. Where the company funds the acquisition of its own shares via a loan to employees with recourse only to the shares, it is treated as an option grant and accounted for under AASB 2 Share-based Payment. No loan or equity is booked initially. The company has effectively given the employee an option exercisable sometime in the future to buy a share at a set price. For information relating to shares issued under the ESOP during the financial year, refer to Note 25 (a).

Effectively 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the company does not have authorised capital nor par value in respect of its issued shares.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

**(c) Share Options - see Note 25 (b)**

Options granted under the Employee Option Plan (EOP) on 23 May 2007 to directors and a former director to take up ordinary shares in the capital of the parent entity and outstanding as at 30 June 2008 are:

| Exercise Period                      | Exercise Price<br>\$ | 2008<br>Number    | 2007<br>Number    |
|--------------------------------------|----------------------|-------------------|-------------------|
| 23 November 2007 to 23 November 2010 | 0.225                | 5,375,000         | 5,375,000         |
| 23 November 2008 to 23 November 2011 | 0.25                 | 5,375,000         | 5,375,000         |
|                                      |                      | <u>10,750,000</u> | <u>10,750,000</u> |

**TEL.PACIFIC LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****(d) Capital Management**

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's capital includes ordinary share supported by financial assets. The group does not have borrowings.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

On 5 July 2007 a total of 25,000,000 ordinary shares at \$0.20 per share was issued through the initial public offering.

During the year a total of 1,348,688 ordinary shares at an average price of \$0.14 per share was bought back on market and cancelled. The Directors felt this was an appropriate investment of excess cash as it was thought the company share price was undervalued. That buy back program has continued after 30 June 2008.

Apart from the above, there have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

| <b>Consolidated</b> |             | <b>Company</b> |             |
|---------------------|-------------|----------------|-------------|
| <b>2008</b>         | <b>2007</b> | <b>2008</b>    | <b>2007</b> |
| \$                  | \$          | \$             | \$          |

**NOTE 21: RESERVES****(a) Foreign Currency Translation Reserve**

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

|                                                            |              |                 |          |          |
|------------------------------------------------------------|--------------|-----------------|----------|----------|
| Balance at the beginning of the year                       | (11,477)     | (4,389)         | -        | -        |
| Gain/(Loss) on translation of overseas controlled entities | 17,416       | (7,088)         | -        | -        |
| Balance at the end of the year                             | <u>5,939</u> | <u>(11,477)</u> | <u>-</u> | <u>-</u> |

**(b) Employee Equity Benefits Reserve**

The employee equity benefits reserve records the value of equity benefits provided to employees and directors as part of their remuneration.

|                                      |                |                |                |                |
|--------------------------------------|----------------|----------------|----------------|----------------|
| Balance at the beginning of the year | 321,775        | -              | 321,775        | -              |
| Share-based payments                 | 1,663          | 321,775        | 1,663          | 321,775        |
| Balance at the end of the year       | <u>323,438</u> | <u>321,775</u> | <u>323,438</u> | <u>321,775</u> |
| <b>Total Reserves</b>                | <u>329,377</u> | <u>310,298</u> | <u>323,438</u> | <u>321,775</u> |

**TEL.PACIFIC LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

| <b>Consolidated</b> |             | <b>Company</b> |             |
|---------------------|-------------|----------------|-------------|
| <b>2008</b>         | <b>2007</b> | <b>2008</b>    | <b>2007</b> |
| \$                  | \$          | \$             | \$          |

**NOTE 22: CAPITAL AND LEASING COMMITMENTS****Operating Lease Commitments**

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

|                                                |                  |                  |                  |                |
|------------------------------------------------|------------------|------------------|------------------|----------------|
| - not later than 1 year                        | 452,827          | 704,377          | 452,827          | 386,836        |
| - later than 1 year but not later than 5 years | 574,578          | 1,372,314        | 574,578          | 581,768        |
| <b>Total Lease Commitments</b>                 | <b>1,027,405</b> | <b>2,076,691</b> | <b>1,027,405</b> | <b>968,604</b> |

The property lease is a non-cancellable 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 3.50% per annum.

# TEL.PACIFIC LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 23: ACQUISITIONS

During the year ended 30 June 2008 the following acquisitions were made:

#### (a) C2 Comms Calling Card Business

On 20 November 2007, Tel.Pacific Limited acquired the calling card business of C2 Comms for consideration of \$3.12 million including acquisition costs.

The C2 business is focused on international calling cards, including the following brands: Click South Asia, Click Africa, No Bull, True Time, Compass, Snap, My World, Sweet Talk and Click Vietnam.

|                                    | \$               |
|------------------------------------|------------------|
| <i>Consideration</i>               |                  |
| Cash consideration for acquisition | 3,000,000        |
| Costs of acquisition               | 127,756          |
| Total cost of combination          | <u>3,127,756</u> |

|                                              | Fair Value<br>2007<br>\$ | Carrying Value<br>2007<br>\$ |
|----------------------------------------------|--------------------------|------------------------------|
| <i>Assets recognised at acquisition date</i> |                          |                              |
| Property, plant and equipment                | 70,000                   | 70,000                       |
| Intangible assets                            | 110,000                  | -                            |
| Goodwill                                     | 2,947,756                | -                            |
| Total                                        | <u>3,127,756</u>         | <u>70,000</u>                |

|                                                          | \$        |
|----------------------------------------------------------|-----------|
| Profit and loss from acquisition date until 30 June 2008 |           |
| Revenue                                                  | 4,842,999 |
| EBITDA                                                   | 455,518   |
| EBIT                                                     | 430,362   |
| NPAT                                                     | 301,253   |

#### (b) Prepaid World Calling Card Business

On 20 June 2008, Tel.Pacific Limited acquired the calling card business of Prepaid World Pty Limited for consideration of \$1.45 million including acquisition costs.

Prepaid World's calling card brands include Lite, Kooky, Moon Lite, Spicy, Cactus, Kurry, Ice, Sweet Deal, Bonsai, Bonjour, Lebanon Forever, City Chat, Ten Dollar and Five Dollar.

|                                   | \$               |
|-----------------------------------|------------------|
| <i>Consideration</i>              |                  |
| Liability assumed for acquisition | 1,390,909        |
| Cost of acquisition               | 54,347           |
| Total cost of combination         | <u>1,445,256</u> |



# TEL.PACIFIC LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

|                                                          | Prepaid World |                |
|----------------------------------------------------------|---------------|----------------|
|                                                          | Fair Value    | Carrying Value |
|                                                          | 2008          | 2008           |
|                                                          | \$            | \$             |
| <i>Assets recognised at acquisition date</i>             |               |                |
| Goodwill                                                 | 1,445,256     | -              |
| Total                                                    | 1,445,256     | -              |
|                                                          | \$            |                |
| Profit and loss from acquisition date until 30 June 2008 | -             |                |

### (c) Other Acquisition

On 29 October 2007, Tel.Pacific Limited through the wholly-owned subsidiary Tel.Pacific New Zealand Limited, purchased the phone card business of Teligate (NZ) Limited for the consideration of \$114,497 (NZD130,000).

### (d) Other Information Relating to Acquisitions

The company accounted for the combination using the provisional values as the initial accounting for a business combination can be determined only provisionally by the end of the year in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally. The company shall recognise any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

The company is unable to provide the adjusted consolidated revenue and consolidated profit for the year ended 30 June 2008 for the Group if the acquisitions during fiscal 2008 had occurred on 1 July 2007. The main reason is that the acquirees' accounting policies adopted were incompatible with the Group, which is prepared on an accrual basis.

In each case, the operations of the acquisitions will be integrated with Tel.Pacific's existing operations, and hence will not be reported separately in future financial reports.

**NOTE 24: DIRECTORS AND EXECUTIVES DISCLOSURES**

**(a) Key Management Personnel**

**Directors**

|                            |                                                      |
|----------------------------|------------------------------------------------------|
| Greg McCann                | Chairman (Non-executive)                             |
| Chiao-Heng (Charles) Huang | Managing Director, Chief Executive Officer           |
| Barry Chan                 | Director, Chief Operating Officer                    |
| Jeffrey Ma                 | Director, Chief Financial Officer, Company Secretary |
| Ryan O'Hare                | Director (Non-executive)                             |
| Stephe Wilks               | Director (Non-executive)                             |

**Executives**

|               |                               |
|---------------|-------------------------------|
| Charles Hsieh | National Sales Manager        |
| Gavin Mattig  | Group Human Resources Manager |
| Huy Nguyen    | National Sales Manager        |

**(b) Remuneration of Key Management Personnel**

|                              | <b>Consolidated</b> |                  | <b>Company</b>   |                  |
|------------------------------|---------------------|------------------|------------------|------------------|
|                              | <b>2008</b>         | <b>2007</b>      | <b>2008</b>      | <b>2007</b>      |
|                              | <b>\$</b>           | <b>\$</b>        | <b>\$</b>        | <b>\$</b>        |
| Short-term Employee Benefits | 964,035             | 742,751          | 964,035          | 742,751          |
| Post-employment Benefits     | 83,726              | 110,491          | 83,726           | 110,491          |
| Termination Benefits         | -                   | -                | -                | -                |
| Share-based Payments         | 1,509               | 260,371          | 1,509            | 260,371          |
|                              | <u>1,049,270</u>    | <u>1,113,613</u> | <u>1,049,270</u> | <u>1,113,613</u> |

The remuneration paid to the key management personnel is outlined in the Directors' Report.

**(c) Equity Instrument Disclosure relating to Key Management Personnel**

**Share Holdings**

The number of ordinary shares in the company held directly, indirectly or beneficially during the financial year by key management personnel and their related entities are as follows:

|                            | <b>Held at<br/>Beginning of<br/>Year</b> | <b>On Exercise of<br/>Options</b> | <b>Net Other<br/>Changes</b> | <b>Total Shares<br/>Held at End of<br/>Year</b> | <b>Shares that<br/>Held Nominally</b> |
|----------------------------|------------------------------------------|-----------------------------------|------------------------------|-------------------------------------------------|---------------------------------------|
| Greg McCann                | -                                        | -                                 | 250,000                      | 250,000                                         | 250,000                               |
| Chiao-Heng (Charles) Huang | 41,917,173                               | -                                 | 30,000                       | 41,947,173                                      | 1,407,600                             |
| Barry Chan                 | 6,994,706                                | -                                 | 243,010                      | 7,237,716                                       | 1,650,610                             |
| Jeffrey Ma                 | 2,401,073                                | -                                 | 40,000                       | 2,441,073                                       | 1,886,800                             |
| Charles Hsieh              | 253,753                                  | -                                 | (58,253)                     | 195,500                                         | 195,500                               |
| Huy Nguyen                 | 913,463                                  | -                                 | -                            | 913,463                                         | 622,200                               |

Total shareholdings include shares held by key management personnel and their related entities. Unless related to the Executive Share Ownership Plan - see Note 25 (a), shares acquired or disposed during the year were on an arm's length basis at market price.

**TEL.PACIFIC LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****Option Holdings**

The number of share options granted to key management personnel during the financial year under the Employee Option Plan - see Note 25 (b) is as follows:

|                            | Balance at<br>Beginning of<br>Year | Options<br>Exercised | Net Other<br>Changes | Balance at End<br>of Year | Exercisable at<br>30 June 2008 |
|----------------------------|------------------------------------|----------------------|----------------------|---------------------------|--------------------------------|
| Greg McCann                | 750,000                            | -                    | -                    | 750,000                   | 375,000                        |
| Chiao-Heng (Charles) Huang | 4,000,000                          | -                    | -                    | 4,000,000                 | 2,000,000                      |
| Barry Chan                 | 2,000,000                          | -                    | -                    | 2,000,000                 | 1,000,000                      |
| Jeffrey Ma                 | 2,000,000                          | -                    | -                    | 2,000,000                 | 1,000,000                      |
| Ryan O'Hare                | 500,000                            | -                    | -                    | 500,000                   | 250,000                        |
| Stephe Wilks               | 500,000                            | -                    | -                    | 500,000                   | 250,000                        |

**NOTE 25: EMPLOYEE BENEFITS****(a) Executive Share Ownership Plan**

The Executive Share Ownership Plan (ESOP) was approved by the Annual General Meeting and established on 24 May 2007

Under the terms of the ESOP, the company has granted each of the participating executives a limited recourse loan equal the purchase value of the shares which is repayable within 10 years. The financial assistance becomes immediately repayable in the event of dismissal, resignation, death or retirement of the executive. The financial assistance is secured over the shares and the rights attached to the shares.

All shares issued pursuant to the plan are held by a trustee appointed by the company in trust for the employee until such time as the financial assistance is repaid. 60% of all dividends and distributions made in respect of the shares must be applied towards repayment of the financial assistance. Voting rights attached to the shares may only be exercised by the trustee holder in the best interest of the executive.

For accounting purposes, the share issue under the ESOP has been treated as an option grant and the value of the options vested has been accounted for and included in the result of the period. Any repayment of the financial assistance will be treated as partial payment to be applied towards the payment of shares issued under the ESOP.

**(b) Employee Option Plan**

The Employee Option Plan (EOP) was approved by the Annual General Meeting and established on 23 May 2007.

Each option issued under the plan will be issued free of charge. The exercise price for options granted under the EOP will be the price fixed by the Board prior to the grant of the options. The options granted under the EOP may be subject to such other restrictions on exercise as may be fixed by the directors prior to the grant of the options including, without limitation, length of services by the employee and threshold prices at which shares are traded on the Australian Securities Exchange (ASX). Any restrictions so imposed by the directors must be set out on the option certificate.

The options granted under the EOP do not give any right to participate in dividends or rights issues until shares are allotted pursuant to the exercise of the relevant option. The number of shares issued on the exercise of options will be adjusted for bonus issues made prior to the exercise of the options.

**TEL.PACIFIC LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

Under the EOP, the directors may invite employees to participate in the EOP and receive options. The plan is open to employees of the company or its subsidiaries who the Board determine to be entitled to participate in the EOP. The number of share underlying options granted under the EOP when aggregated with:

- a) the maximum number of shares that could be issued on exercise of unexercised EOP options and any other employee incentive share or option plan; and
- b) the number of shares issued on exercise of options under the EOP and any other employee incentive share or option plan in the last 5 years,

must not exceed 5% of the issued shares at the time of grant of the options. This restriction will not prevent the company from granting options under the EOP where a prospectus has been lodged with the Australian Investments and Securities Commission in respect of the grant of those options.

If the company, after having granted any option under the EOP, reduces its issued share capital or subdivides or consolidates its shares, the number of the shares issued to the option holder on exercise of an option will be reduced, subdivided or consolidated, as the case may be in accordance with the ASX Listing Rules.

Options granted under the EOP are not transferable.

The fair value of the option grant under the EOP is estimated at the date of grant using a Black-Scholes Options Pricing Model applying the following inputs:

|                                 | <b>Tranche 1</b> | <b>Tranche 2</b> |
|---------------------------------|------------------|------------------|
| Grant Date                      | 23-May-07        | 23-May-07        |
| Exercisable Date                | 23-Nov-07        | 23-Nov-08        |
| Expiry Date                     | 23-Nov-10        | 23-Nov-11        |
| Number of Options on Issue      | 5,375,000        | 5,375,000        |
| Exercise Price                  | \$0.225          | \$0.25           |
| Time to Maturity                | 2.4 years        | 3.4 years        |
| Underlying Share Price          | \$0.14           | \$0.14           |
| Expected Share Price Volatility | 19.21%           | 19.21%           |
| Risk-free Interest Rate         | 6.45%            | 6.45%            |
| Dividend Yield                  | 5.00%            | 5.00%            |

The expected life of the options is based on historical data, which may not eventuate in the future. The expected share price volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Included under employee benefits expense in the income statement is \$1,663 (2007 - \$12,188) in relation to the amortised cost of these EOP transactions.

**(c) Superannuation Plan**

The company contributes to employee superannuation plans in accordance with contractual and statutory requirements.

**TEL.PACIFIC LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****(d) Expenses Arising from Share-based Payment Transactions**

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefits expenses were as follows:

|                                                    | <b>Consolidated</b> |                | <b>Company</b> |                |
|----------------------------------------------------|---------------------|----------------|----------------|----------------|
|                                                    | <b>2008</b>         | <b>2007</b>    | <b>2008</b>    | <b>2007</b>    |
|                                                    | <b>\$</b>           | <b>\$</b>      | <b>\$</b>      | <b>\$</b>      |
| Options issued under Employee Option Plan          | 1,663               | 12,188         | 1,663          | 12,188         |
| Shares issued under Executive Share Ownership Plan | -                   | 309,587        | -              | 309,587        |
|                                                    | <u>1,663</u>        | <u>321,775</u> | <u>1,663</u>   | <u>321,775</u> |

**(e) Employee Numbers**

|                                          |           |           |           |           |
|------------------------------------------|-----------|-----------|-----------|-----------|
| Number of full-time equivalent employees | <u>95</u> | <u>75</u> | <u>89</u> | <u>75</u> |
|------------------------------------------|-----------|-----------|-----------|-----------|

**NOTE 26: CONTINGENT LIABILITIES**

As at 30 June 2008 the consolidated entity has issued bank guarantees of \$649,689 (2007 - \$166,472) for which term deposits are held to secure this amount.

Apart from the bank guarantees, there are no contingent liabilities as at the date of signing of this report.

**NOTE 27: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The group undertakes transactions in a range of financial instruments including:

- Cash assets;
- Trade and other receivables;
- Trade and other payables; and
- Investments.

The main risks arising from the group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks.

**(a) Interest Rate Risk**

The group has 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. The effective weighted average interest rates on those financial assets and financial liabilities as follows;

**Consolidated**

|                            | Note | Weighted<br>Average<br>Effective<br>Interest Rate | Floating<br>Interest Rate<br>\$ | Within Year<br>\$ | 1 to 5 Years<br>\$ | Non-Interest<br>Bearing<br>\$ | Total<br>\$       |
|----------------------------|------|---------------------------------------------------|---------------------------------|-------------------|--------------------|-------------------------------|-------------------|
| <b>2008</b>                |      |                                                   |                                 |                   |                    |                               |                   |
| Financial Assets           |      |                                                   |                                 |                   |                    |                               |                   |
| Cash                       | 10   | 7.35%                                             | 8,191,045                       | 6,756,699         | -                  | 153,170                       | 15,100,914        |
| Receivables - Term deposit | 11   | 7.75%                                             | -                               | 663,326           | -                  | -                             | 663,326           |
|                            |      |                                                   | <u>8,191,045</u>                | <u>7,420,025</u>  | <u>-</u>           | <u>153,170</u>                | <u>15,764,240</u> |

|                  | Note | Weighted<br>Average<br>Effective<br>Interest Rate | Floating<br>Interest Rate<br>\$ | Within Year<br>\$ | 1 to 5 Years<br>\$ | Non-Interest<br>Bearing<br>\$ | Total<br>\$       |
|------------------|------|---------------------------------------------------|---------------------------------|-------------------|--------------------|-------------------------------|-------------------|
| <b>2007</b>      |      |                                                   |                                 |                   |                    |                               |                   |
| Financial Assets |      |                                                   |                                 |                   |                    |                               |                   |
| Cash             | 9    | 5.68%                                             | 4,192,251                       | 6,599,997         | -                  | 58,940                        | 10,851,188        |
|                  |      |                                                   | <u>4,192,251</u>                | <u>6,599,997</u>  | <u>-</u>           | <u>58,940</u>                 | <u>10,851,188</u> |

**(b) Foreign Currency Risk**

The group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the US dollar and NZ dollar.

Foreign exchange risk arises from future commercial transactions and net investments in foreign operations.

The transactional currency exposure will be minimised by seeking economically favourable local suppliers. The group does not enter into forward exchange contracts for its currency exposures.

Foreign currency risk also arises on translation of the net assets of our non Australian controlled entities which have different functional currency. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve. The group does not seek to hedge this exposure taking consideration of current net investment position.

**(c) Credit Risk**

The group'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.

The group does not have any significant credit risk exposure to any single counter-party or any group of counter-parties having similar characteristics. In addition, receivable balances are monitored on an ongoing basis.

There are no significant concentrations of credit risk within the group.

**(d) Liquidity Risk**

The group's objective is to be self-funding by the generation of positive cash flows.

**(e) Net Fair Values**

The aggregate carrying values of financial assets and financial liabilities recognised at the balance date represents the net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

**TEL.PACIFIC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**(f) Summarised Sensitivity Analysis**

**(1) Interest Rate Risk**

The following sensitivity analysis is based on interest rate exposures arising from the effect on interest income on net average balance of cash and cash equivalents and term deposits from 10 per cent movement in interest rates during the year.

A sensitivity of plus or minus 10 per cent has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates.

|                           | Year Ended 30 June 2008 |                 |          |          | Year Ended 30 June 2007 |                 |          |          |
|---------------------------|-------------------------|-----------------|----------|----------|-------------------------|-----------------|----------|----------|
|                           | Profit / Loss           |                 | Equity   |          | Profit / Loss           |                 | Equity   |          |
|                           | +10%                    | -10%            | +10%     | -10%     | +10%                    | -10%            | +10%     | -10%     |
|                           | \$                      | \$              | \$       | \$       | \$                      | \$              | \$       | \$       |
| <b>Consolidated</b>       |                         |                 |          |          |                         |                 |          |          |
| Financial assets          |                         |                 |          |          |                         |                 |          |          |
| Cash and cash equivalents | 66,913                  | (66,913)        | -        | -        | 28,461                  | (28,461)        | -        | -        |
| Accounts receivable       | 1,712                   | (1,712)         | -        | -        | -                       | -               | -        | -        |
| Increase/(Decrease)       | <u>68,625</u>           | <u>(68,625)</u> | <u>-</u> | <u>-</u> | <u>28,461</u>           | <u>(28,461)</u> | <u>-</u> | <u>-</u> |
| <b>Company</b>            |                         |                 |          |          |                         |                 |          |          |
| Financial assets          |                         |                 |          |          |                         |                 |          |          |
| Cash and cash equivalents | 67,037                  | (67,037)        | -        | -        | 28,461                  | (28,461)        | -        | -        |
| Accounts receivable       | 1,775                   | (1,775)         | -        | -        | -                       | -               | -        | -        |
| Increase/(Decrease)       | <u>68,812</u>           | <u>(68,812)</u> | <u>-</u> | <u>-</u> | <u>28,461</u>           | <u>(28,461)</u> | <u>-</u> | <u>-</u> |

**(2) Foreign Exchange Risk**

The sensitivity analysis is based on foreign currency risk exposures on financial instruments and net foreign investment balances as at balance date. Foreign currency risk arising from financial instruments represents a financial risk.

A sensitivity of 10 per cent has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movements.

|                          | Year Ended 30 June 2008 |                 |               |                 | Year Ended 30 June 2007 |                 |          |          |
|--------------------------|-------------------------|-----------------|---------------|-----------------|-------------------------|-----------------|----------|----------|
|                          | Profit / Loss           |                 | Equity        |                 | Profit / Loss           |                 | Equity   |          |
|                          | +10%                    | -10%            | +10%          | -10%            | +10%                    | -10%            | +10%     | -10%     |
|                          | \$                      | \$              | \$            | \$              | \$                      | \$              | \$       | \$       |
| <b>Consolidated</b>      |                         |                 |               |                 |                         |                 |          |          |
| Financial liabilities    |                         |                 |               |                 |                         |                 |          |          |
| Trade and other payables | (13,324)                | 6,979           | 43,126        | (43,331)        | 47,080                  | (57,542)        | -        | -        |
| Increase/(Decrease)      | <u>(13,324)</u>         | <u>6,979</u>    | <u>43,126</u> | <u>(43,331)</u> | <u>47,080</u>           | <u>(57,542)</u> | <u>-</u> | <u>-</u> |
| <b>Company</b>           |                         |                 |               |                 |                         |                 |          |          |
| Financial liabilities    |                         |                 |               |                 |                         |                 |          |          |
| Trade and other payables | 71,086                  | (86,883)        | -             | -               | 47,080                  | (57,542)        | -        | -        |
| Increase/(Decrease)      | <u>71,086</u>           | <u>(86,883)</u> | <u>-</u>      | <u>-</u>        | <u>47,080</u>           | <u>(57,542)</u> | <u>-</u> | <u>-</u> |



**TEL.PACIFIC LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****NOTE 28: DISCONTINUED OPERATIONS****(a) Sale of Internet service provider Business**

On 2 April 2007, the company had completed the sale of its Internet service provider business to G-node Networks Pty Limited. The Internet service provider business had been operated by G-node Networks Pty Limited since 1 December 2006 under an arrangement with the company.

The results of the Internet service provider business for the year have been presented below:

|                                                                         | <b>2007</b>             |
|-------------------------------------------------------------------------|-------------------------|
|                                                                         | <b>\$</b>               |
| <b>i) Operating Result (1)</b>                                          |                         |
| Revenue                                                                 | 3,609,261               |
| Cost of sales                                                           | <u>(3,163,369)</u>      |
| Gross profit                                                            | 445,892                 |
| Other income                                                            | <u>-</u>                |
| Total income                                                            | 445,892                 |
| Operating expenses                                                      | (219,620)               |
| Employee benefits expenses                                              | <u>(794,332)</u>        |
| Operating loss before interest, taxation, depreciation and amortisation | (568,060)               |
| Depreciation and amortisation                                           | <u>(142,059)</u>        |
| Operating loss before interest and tax                                  | (710,119)               |
| Finance costs                                                           | <u>-</u>                |
| Operating loss before tax from discontinued operation                   | (710,119)               |
| Income tax benefit                                                      | <u>213,036</u>          |
| Net loss attributable to discontinued operation                         | <u><u>(497,083)</u></u> |

(1) Operating results for Internet service provider business included in the year ended 30 June 2007 are for the period from 1 July 2006 to 30 November 2006 (the effective acquisition date of Internet service provider business).

**ii) Profit on Sale of Discontinued Operation**

|                                                     |                         |
|-----------------------------------------------------|-------------------------|
| Proceeds                                            | 2,750,000               |
| Incidental expenses                                 | (39,000)                |
| Cost of investment (2)                              | <u>(466,018)</u>        |
| Profit before tax on sale of discontinued operation | 2,244,982               |
| Income tax expense                                  | <u>(207,746)</u>        |
| Net profit on sale of discontinued operation        | <u><u>2,037,236</u></u> |

(2) Cost of investment represents the net assets attributable to the discontinued operations as follows:

|                                                    |                       |
|----------------------------------------------------|-----------------------|
| Property, plant and equipment                      | 392,051               |
| Prepayment                                         | 23,867                |
| Investment written off                             | <u>50,099</u>         |
| Net assets attributable to discontinued operations | <u><u>466,018</u></u> |

**TEL.PACIFIC LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****2007****\$****iii) Total Result of Discontinued Operation**

|                                               |                         |
|-----------------------------------------------|-------------------------|
| Revenue and proceeds                          | 6,359,261               |
| Expenses and costs                            | <u>(4,824,398)</u>      |
| Profit before finance costs                   | 1,534,863               |
| Finance costs                                 | <u>-</u>                |
| Profit before tax from discontinued operation | 1,534,863               |
| Income tax benefit                            | <u>5,290</u>            |
| Net profit on sale of discontinued operation  | <u><u>1,540,153</u></u> |

**(b) Sale of Acay Network Computing Pty Limited**

On 15 May 2007, the company sold all of the issued shares in a former subsidiary, Acay Network Computing Pty Limited to the executive directors in accordance with a share sale agreement.

The results of the discontinued operations for the year of disposal are presented below:

**i) Operating Result (3)**

|                                                                         |                         |
|-------------------------------------------------------------------------|-------------------------|
| Revenue                                                                 | 682,838                 |
| Cost of sales                                                           | <u>(316,840)</u>        |
| Gross profit                                                            | 365,998                 |
| Other income                                                            | <u>5,925</u>            |
| Total income                                                            | 371,923                 |
| Operating expenses                                                      | (594,394)               |
| Employee benefits expenses                                              | <u>(268,591)</u>        |
| Operating loss before interest, taxation, depreciation and amortisation | (491,062)               |
| Depreciation and amortisation                                           | <u>(46,155)</u>         |
| Operating loss before interest and tax                                  | (537,217)               |
| Finance costs                                                           | <u>-</u>                |
| Operating loss before tax from discontinued operation                   | (537,217)               |
| Income tax benefit                                                      | <u>189,789</u>          |
| Net loss attributable to discontinued operations                        | <u><u>(347,428)</u></u> |

(3) Operating results for Acay Network Computing Pty Limited included in the year ended 30 June 2007 are for the period from 1 July 2006 to 14 May 2007 (the date of sale of Acay).

**ii) Loss on Sale of Discontinued Operation**

|                                                   |                         |
|---------------------------------------------------|-------------------------|
| Proceeds                                          | 20,000                  |
| Incidental expenses                               | (2,721)                 |
| Cost of investment (4)                            | <u>(556,823)</u>        |
| Loss before tax on sale of discontinued operation | (539,544)               |
| Income tax benefit                                | <u>161,863</u>          |
| Net loss on sale of discontinued operation        | <u><u>(377,681)</u></u> |

**TEL.PACIFIC LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008****2007****\$**

(4) Cost of investment represents the net assets attributable to the discontinued operations as follows:

**Assets**

|                             |         |
|-----------------------------|---------|
| Cash and cash equivalents   | 190,407 |
| Trade and other receivables | 41,615  |
| Inventories                 | 161,068 |
| Other current assets        | 21,164  |
| Fixed assets                | 186,220 |
| Intangibles                 | 765     |

601,239**Liabilities**

|                          |               |
|--------------------------|---------------|
| Trade and other payables | 44,415        |
|                          | <u>44,415</u> |

**Net assets**

556,824

Less: net consolidated assets

1

Net assets attributable to discontinued operations

556,823**iii) Total Result of Discontinued Operation**

|                                             |                         |
|---------------------------------------------|-------------------------|
| Revenue and proceeds                        | 702,838                 |
| Expenses and costs                          | <u>(1,779,599)</u>      |
| Loss before finance costs                   | (1,076,761)             |
| Finance costs                               | <u>-</u>                |
| Loss before tax from discontinued operation | (1,076,761)             |
| Income tax benefit                          | <u>351,652</u>          |
| Net loss on sale of discontinued operation  | <u><u>(725,109)</u></u> |

**Net Profit from Discontinued Operations after Tax**815,044

**TEL.PACIFIC LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**
**NOTE 29: SEGMENT REPORTING**

The consolidated entity operates in one business segment, being the provision of pre-paid telephony products and services, in the geographical locations of Australia and New Zealand. Tel.Pacific New Zealand Limited started operation on 29 October 2007.

Segment accounting policies are the same as the consolidated entity's policies described in Note 1.

**Geographic segments - Primary reporting**

|                                             | Australia<br>\$   | New<br>Zealand<br>\$ | Discontinued<br>Operation<br>\$ | Elimination<br>\$ | Total<br>\$       |
|---------------------------------------------|-------------------|----------------------|---------------------------------|-------------------|-------------------|
| <b>2008</b>                                 |                   |                      |                                 |                   |                   |
| <b>Revenue</b>                              |                   |                      |                                 |                   |                   |
| Revenue from external customers             | 46,199,646        | 1,220,461            | -                               | -                 | 47,420,107        |
| Other income                                | 1,252,740         | 19,808               | -                               | (9,064)           | 1,263,484         |
| Inter-segment revenue                       | 669,511           | -                    | -                               | (669,511)         | -                 |
| Total segment revenue                       | <u>48,121,897</u> | <u>1,240,269</u>     | <u>-</u>                        | <u>(678,575)</u>  | <u>48,683,591</u> |
| <b>Result</b>                               |                   |                      |                                 |                   |                   |
| Earning before interest and taxation (EBIT) | 4,660,221         | (612,130)            | -                               | -                 | 4,048,091         |
| <b>Other Segment Information</b>            |                   |                      |                                 |                   |                   |
| Depreciation                                | 688,418           | 14,327               | -                               | -                 | 702,745           |
| Amortisation                                | 53,443            | -                    | -                               | -                 | 53,443            |
| <b>Assets and Liabilities</b>               |                   |                      |                                 |                   |                   |
| Segment assets                              | 32,513,226        | 1,426,244            | -                               | (1,406,402)       | 32,533,068        |
| Segment liabilities                         | 22,304,762        | 1,816,221            | -                               | (1,420,409)       | 22,700,574        |
| <b>Cash Flow Information</b>                |                   |                      |                                 |                   |                   |
| Net cash flow from operating activities     | 5,420,357         | 1,025,761            | -                               | -                 | 6,446,118         |
| Net cash flow from investing activities     | (3,671,542)       | (204,002)            | -                               | 89,352            | (3,786,192)       |
| Net cash flow from financing activities     | 1,589,800         | 8,546                | -                               | (8,546)           | 1,589,800         |
| <b>2007</b>                                 |                   |                      |                                 |                   |                   |
| <b>Revenue</b>                              |                   |                      |                                 |                   |                   |
| Revenue from external customers             | 36,373,304        | -                    | 4,292,099                       | -                 | 40,665,403        |
| Other income                                | 630,093           | -                    | 5,925                           | -                 | 636,018           |
| Inter-segment revenue                       | -                 | -                    | -                               | -                 | -                 |
| Total segment revenue                       | <u>37,003,397</u> | <u>-</u>             | <u>4,298,024</u>                | <u>-</u>          | <u>41,301,421</u> |
| <b>Result</b>                               |                   |                      |                                 |                   |                   |
| Earning before interest and taxation (EBIT) | 3,390,458         | -                    | (1,247,336)                     | -                 | 2,143,122         |
| <b>Other Segment Information</b>            |                   |                      |                                 |                   |                   |
| Depreciation                                | 561,365           | -                    | 188,214                         | -                 | 749,579           |
| Amortisation                                | 59,410            | -                    | -                               | -                 | 59,410            |
| <b>Assets and Liabilities</b>               |                   |                      |                                 |                   |                   |
| Segment assets                              | 18,662,343        | -                    | -                               | -                 | 18,662,343        |
| Segment liabilities                         | (15,495,834)      | -                    | -                               | -                 | (15,495,834)      |
| <b>Cash Flow Information</b>                |                   |                      |                                 |                   |                   |
| Net cash flow from operating activities     | 5,692,802         | -                    | (1,059,123)                     | -                 | 4,633,679         |
| Net cash flow from investing activities     | 1,883,804         | -                    | (42,750)                        | -                 | 1,841,054         |
| Net cash flow from financing activities     | 911,155           | -                    | -                               | -                 | 911,155           |

## **TEL.PACIFIC LIMITED**

### **NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2008**

#### **NOTE 30: EVENTS AFTER THE BALANCE SHEET DATE**

On 22 April 2008, Tel.Pacific Limited entered a heads of agreement in relation to new office premises with a six year term, commencing on 1 December 2008. Lease documents have been executed by Tel.Pacific on 4 August 2008, pending completion of documentation by the landlords. The total lease commitment is \$3,931,271 over the lease term.

#### **NOTE 31: RELATED PARTY TRANSACTIONS**

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

In previous years, the company had granted various short term loans on standard commercial terms and conditions to Bolligram International Pty Limited (Bolligram), in which a related party to Chiao-Heng (Charles) Huang holds a 42% shareholding. Tel.Pacific Limited and Jeffrey Ma are also shareholders of Bolligram, with shareholdings of 12% and 2% respectively. The outstanding loan balance from Bolligram of \$50,000 plus accrued interest of \$2,082 has been written off during the year as Bolligram is insolvent and being wound down.

During the year, the company paid rental totalling \$24,700 (2007 - \$22,880) on normal commercial terms and conditions no more favourable than those available to other parties, to Jeffrey Ma, in relation to the Brisbane Office.

During the year, the company paid rental totalling \$15,175 (2007 - \$14,770) on normal commercial terms and conditions no more favourable than those available to other parties, to First Goldland Pty Limited, in which Barry Chan owns 10% shareholding, in relation to the Perth Office.

#### **NOTE 32: COMPANY DETAILS**

The company is incorporated and domiciled in Australia.

The registered office and principal place of business of the company is:

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

**DIRECTORS' DECLARATION**

The Directors of Tel.Pacific Limited declare that:

- (a) in the Directors' opinion the financial statements and notes on pages 15 to 59, and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 7 to 13, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
- (c) the remuneration disclosures that are contained in the Remuneration report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001; and
- (d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2008, required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors.

Dated at Sydney on 25 August 2008



Greg McCann  
Chairman



Chiao-Heng (Charles) Huang  
Managing Director



Chartered Accountants  
& Business Advisers

## INDEPENDENT AUDITOR'S REPORT

To the members of Tel.Pacific Limited

### Report on the Financial Report

We have audited the accompanying financial report of Tel.Pacific Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | [www.pkf.com.au](http://www.pkf.com.au)

PKF | ABN 83 236 985 726

Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia

DX 10173 | Sydney Stock Exchange | New South Wales

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### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's Opinion*

In our opinion:

- (a) the financial report of Tel.Pacific Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the entity's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 10 to 13 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's Opinion*

In our opinion the Remuneration Report of Tel.Pacific Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



PKF



**Arthur Milner**  
**Partner**

**Sydney 25 August 2008**