

Appendix 4 E

Preliminary Final Report

TEL.PACIFIC LIMITED

ABN 99 073 079 268

Current Reporting Period: Year Ended 30 June 2011
Previous Corresponding Period: Year Ended 30 June 2010 (Restated)

Results for Announcement to the Market

		Change		Amount
Revenue from ordinary activities	Up	11.1%	To	\$60,139,884
Earnings from continuing operations before interest expense, taxation, depreciation, amortisation and impairment (EBITDA)	Down	-151.3%	To	(\$1,601,478)
Loss from continuing operations after tax attributable to members	Down	-288.2%	To	(\$1,980,851)
Net loss for the period attributable to members	Down	-288.2%	To	(\$1,980,851)

Dividends

A fully franked interim dividend of 0.4 cents per share was declared on 28 February 2011 with a record date of 11 March 2011. No final dividend was declared and payable for the year ended 30 June 2011.

Brief Explanation of Results

\$000's	Year ended 30 June 2010 ⁽¹⁾	Year ended 30 June 2010 (Restated) ⁽²⁾	Year ended 30 June 2011 ⁽³⁾	% of Previous Correspondence Period (Restated) (PCP)
Revenue	53,935	54,155	60,140	11.1%
EBITDA	3,065	3,123	-1,601	-151.3%
NPAT	1,012	1,052	-1,981	-288.2%

⁽¹⁾ FY2010 result included Hello Mobile losses of \$2.0m, impairment of goodwill in New Zealand operations of \$89k and write off of previously recognised deferred tax asset of \$215k. In the absence of the Hello Mobile investment, EBITDA and NPAT would have been \$5.1 million (down 5.0% compared to the PCP) and \$2.5 million (down 24.7% compared to the PCP) respectively.

⁽²⁾ A prior period adjustment was identified in the current year in relation to the recognition of expiry revenue and the payment of payroll tax. The effect of the adjustment was an understatement of revenue by \$220k, an understatement of expenses by \$179k which resulted in an overall understatement of profit for the FY2010 by \$41k. The adjustment also resulted in an understatement of retained profit for periods prior to FY 2010 by \$17k.

⁽³⁾ FY2011 EBITDA included Hello Mobile losses of \$5.4 million. In the absence of the Hello Mobile investment, EBITDA and NPAT would have been \$3.8 million (down 27.1% compared to the PCP) and \$1.8 million (down 28.4% compared to the PCP) respectively.

Revenue of the consolidated entity for the year increased to \$60.1 million (up 11.1% over the previous year), largely attributable to the growth of mobile business by four and half times from \$2.1 million to \$9.5 million in 2011. In addition to the growth of Hello Mobile, the increase in revenue was in part generated from the Mobile Real Time Monitoring (MRTM) intelligent network platform which was acquired on 30 June 2010, and from the interconnect and transit arrangements with carriers which were initiated in the year. The net increase in revenue was however partially offset by the decrease in the traditional calling card revenue which was impacted by the direct competition from the prepaid mobile.

Despite the substantial growth in revenue, the prepaid mobile business in an extremely competitive market was subject to fierce pricing pressure and continued to operate at a loss. Although the gross margin has improved, Hello Mobile still reported a negative margin for the year.

During the year the consolidated entity changed the basis for calculation of commission costs as set out in Note 1(v) "Estimation of Commission Costs" in the Statement of Significant Accounting Policies. This change was to ensure a more accurate estimate of effective rate of commission, particularly in light of the change in business mix. As a result of the change a one off non cash adjustment of \$2.3m has been expensed in the year, reducing deferred commission costs on the balance sheet.

Overall, earnings before interest expense, tax, depreciation, amortisation and impairment (EBITDA) and net profit after tax (NPAT) of the consolidated entity for the year ended 30 June 2011 decreased to (\$1.6 million) (down 151.3% over the previous year) and (\$2.0 million) (down 288.2% over the previous year) respectively.

Excluding the Hello Mobile losses, EBITDA and NPAT would have been \$3.8 million (down 27.1% compared to the PCP) and \$1.8 million (down 28.4% compared to the PCP) respectively.

After the acquisition of the MART platform and continued losses of mobile business, the total cash balance and bank deposits stood at \$5.1 million as at 30 June 2011.

Net Tangible Asset Backing

	30 June 2011	30 June 2010
	Cents	Cents
Net tangible assets per security	0.7	3.4

Controlled Entities

As at 30 June 2011 Tel.Pacific Limited has 50% interest in the joint venture entity Real-time Mobile Pty Ltd.

Other than above, the group does not have any interests in associates outside the group.

Audit Report

The preliminary financial report is based on consolidated financial statements which have been audited.

TEL.PACIFIC LIMITED

A.B.N. 99 073 079 268

Consolidated Financial Statements For The Year Ended 30 June 2011

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TEL.PACIFIC LIMITED

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 Moko.mobi Limited, a global provider of mobile social networking services and is on the board of the law firm, Lander & Rogers. Greg is also a Non-Executive Director of NBN Tasmania Limited, a company established to rollout the national broadband network services in Tasmania.

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.

Stephe Wilks BSc, LL.M

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 Service Stream Limited, Tel.Pacific Limited and 3 Q Holdings Limited, and an Advisory Board member of the Network Insight Group.

Ilario Faenza

Non-Executive Director

Appointed 22 January 2010

Resigned 26 July 2011

Ilario has considerable experience in the telecommunications industry; having founded Virtel Group limited in 2001 (Virtel was sold to Comtel Limited in 2007). Ilario has started a number of successful business over his career and has substantial corporate experience, both operationally and at board level.

In addition, Ilario is an executive director of Aggregato Pty Ltd, a company which specialises in the establishment of mobile virtual network operators and which also provides services to Tel.Pacific.

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement sets out the company's current compliance with the ASX Corporate Governance Council's Corporate Governance Principles 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
1	Lay solid foundations for management and oversight		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	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.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Complies	The Board has constituted a sub-committee of members as the Remuneration and Nomination Committee (each of the independent Directors, and the Chief Executive Officer), which formally reviews the performance of senior executives each year.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Complies	The Corporate Governance Statement is included in the company's Annual Report, and the Annual Report published on the company's website at www.telpacific.com.au .
2	Structure the board to add value		
2.1	A majority of the board should be independent directors.	Does not comply	Two out of five Board members are independent directors. The company 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. 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.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Complies	The performance of the Board and each of its directors and committees is formally reviewed by the Chairman each year, and the Chairman by the Remuneration and Nomination Committee (in the Chairman's absence).

2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Complies	The Corporate Governance Policy sets out the board function and composition, and this policy is available on the company's website at www.telpacific.com.au .
3	Promote ethical and responsible decision-making		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Complies	The Board has adopted a charter that formalizes 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. 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. The company is committed to doing business honestly and fairly and competing on its merits and complying with all relevant laws and statutory obligations. The company has put in place a formal Trade Practices Compliance program.
3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Complies	The Board has developed a Securities Dealing Policy that applies to trading in the company's securities by directors and employees.
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Complies	The Corporate Governance Policy and the Securities Dealing Policy are available on the company's website at www.telpacific.com.au .
4	Safeguard integrity in financial reporting		
4.1	The board should establish an audit committee.	Complies	The Board has appointed an Audit and Risk Committee.
4.2	The audit committee should be structured so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members.	Complies	The Audit and Risk Committee comprises the three non-executive directors. The Chairman of the Audit and Risk Committee (Stephe Wilks) is not the Chairman of the Board.
4.3	The audit committee should have a formal charter.	Complies	The Audit and Risk Committee charter is set out in the company's Corporate Governance Policy.

4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Complies	The Corporate Governance Policy sets out the Audit and Risk Committee charter and this policy is available on the company's website at www.telpacific.com.au .
5	Make timely and balanced disclosure		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Complies	The company has a continuous disclosure program in place designed to ensure the factual presentation of the company's financial position. 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. Given the size of the company and the skills of the Board, disclosure matters are ultimately reviewed by the Board following executive management advice and information.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Complies	The Corporate Governance Policy is available on the company's website at www.telpacific.com.au .
6	Respect the rights of shareholders		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	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	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complies	All relevant announcements made are placed on the company's website at www.telpacific.com.au after they have been released to the ASX.
7	Recognise and manage risk		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	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 board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Complies	A risk management framework program has been put in place to manage the company's material business and financial risks, and management is required to report periodically to confirm that those risks are being managed effectively.

7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complies	The Board requires the Chief Executive Officer and the Chief Financial Officer to make such a declaration in accordance with S295A of the Corporations Act 2001 at the relevant time.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Complies	The Corporate Governance Policy sets out the internal control framework and this policy is available on the company's website at www.telpacific.com.au .
8	Encourage enhanced performance		
8.1	The board should establish a remuneration committee.	Complies	The Board has appointed a Remuneration and Nomination Committee comprised of the company's three independent non-executive directors and Chief Executive Officer.
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior 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. Those remuneration arrangements are separate from those applicable to executive directors and senior executives; and non-executive directors do not participate in the company's performance incentive plan.
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Complies	The remuneration of all directors is disclosed in each year's Annual Report. The Corporate Governance Policy sets out the remuneration guideline and this policy is available on the company's website at www.telpacific.com.au.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Tel.Pacific Limited (the company) and the entities it controlled for the year ended 30 June 2011 for the financial year ended 30 June 2011.

Directors

The names of the directors in office during the year and until the date of this report are as below. Other than as noted, directors were in office for this entire period.

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
Stephe Wilks	Director (Non-executive)
Ilario Faenza	Director (Non-executive) - resigned on 26 July 2011

Company Secretary

Nick Geddes FCA, FCIS

Nick is the principal of Australian Company Secretaries, a company secretarial practice, that he formed in 1993. Nick is immediate past President 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 Chartered Accountant (Fellow of the Institute of Chartered Accountants in England and Wales) and Fellow of the Institute of Chartered Secretaries (Chartered Secretaries Australia).

Principal Activity

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

Operating Result for the Financial Year

Operating revenue from continuing operations of \$60,139,884 (2010: \$54,154,876) was 11.1% above that restated for the previous year.

Earnings before interest expense, taxation, depreciation, amortisation and impairment (EBITDA) from continuing operations were (\$1,601,478) (2010: \$3,123,067), down 151.3% over the previous year. The net loss from continuing operations after tax was (\$1,980,851) (2010: \$1,052,447), down 288.2 % over the previous year.

Review of Operations

\$000's	Year ended 30 June 2010 ⁽¹⁾	Year ended 30 June 2010 (Restated) ⁽²⁾	Year ended 30 June 2011 ⁽³⁾	% of Previous Correspondence Period (Restated) (PCP)
Revenue	53,935	54,155	60,140	11.1%
EBITDA	3,065	3,123	(1,601)	-151.3%
NPAT	1,012	1,052	(1,981)	-288.2%

⁽¹⁾ FY2010 result included Hello Mobile losses of \$2.0m, impairment of goodwill in New Zealand operations of \$89k and write off of previously recognised deferred tax asset of \$215k. In the absence of the Hello Mobile investment, EBITDA and NPAT would have been \$5.1 million (down 5.0% compared to the PCP) and \$2.5 million (down 24.7% compared to the PCP) respectively.

⁽²⁾ A prior period adjustment was identified in the current year in relation to the recognition of expiry revenue and the payment of payroll tax. The effect of the adjustment was an understatement of revenue by \$220k, an understatement of expenses by \$179k which resulted in an overall understatement of profit for the FY2010 by \$41k. The adjustment also resulted in an understatement of retained profit for periods prior to FY 2010 by \$17k.

⁽³⁾ FY2011 EBITDA included Hello Mobile losses of \$5.4 million. In the absence of the Hello Mobile investment, EBITDA and NPAT would have been \$3.8 million (down 27.1% compared to the PCP) and \$1.8 million (down 28.4% compared to the PCP) respectively.

Revenue of the consolidated entity for the year increased to \$60.1 million (up 11.1% over the previous year), largely attributable to the growth of mobile business by four and half times from \$2.1 million to \$9.5 million in 2011. In addition to the growth of Hello Mobile, the increase in revenue was in part generated from the Mobile Real Time Monitoring (MRTM) intelligent network platform which was acquired on 30 June 2010, and from the interconnect and transit arrangements with carriers which were initiated in the year. The net increase in revenue was however partially offset by the decrease in the traditional calling card revenue which was impacted by the direct competition from the prepaid mobile.

Despite the substantial growth in revenue, the prepaid mobile business in an extremely competitive market was subject to fierce pricing pressure and continued to operate at a loss. Although the gross margin has improved, Hello Mobile still reported a negative margin for the year.

During the year the consolidated entity changed the basis for calculation of commission costs as set out in Note 1(v) "Estimation of Commission Costs" in the Statement of Significant Accounting Policies. This change was to ensure a more accurate estimate of effective rate of commission, particularly in light of the change in business mix. As a result of the change a one off non cash adjustment of \$2.3m has been expensed in the year, reducing deferred commission costs on the balance sheet.

Overall, earnings before interest expense, tax, depreciation, amortisation and impairment (EBITDA) and net profit after tax (NPAT) of the consolidated entity for the year ended 30 June 2011 decreased to (\$1.6 million) (down 151.3% over the previous year) and (\$2.0 million) (down 288.2% over the previous year) respectively.

Excluding the Hello Mobile losses, EBITDA and NPAT would have been \$3.8 million (down 27.1% compared to the PCP) and \$1.8 million (down 28.4% compared to the PCP) respectively.

After the acquisition of the MRTM platform and continued losses of mobile business, the total cash balance and bank deposits stood at \$5.1 million as at 30 June 2011.

Dividend

No final dividend was declared and payable for the year ended 30 June 2011.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year ended 30 June 2011.

Significant Events After Balance Date

The consolidated entity entered into a sales contract with a third party on 17 May 2011 to sell the Melbourne office. Sales proceeds of \$0.8 million were received on 13 July 2011. The net gain of \$0.3 million from the sale of the office has not been accounted for in the 30 June 2011 consolidated financial statements as the final settlement took place on 13 July 2011.

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 Ordinary Shares	Number of Share Options
Greg McCann	614,200	375,000
Chiao-Heng (Charles) Huang	43,890,173	2,000,000
Barry Chan	8,469,116	1,000,000
Jeffrey Ma	3,678,223	1,000,000
Stephe Wilks	350,000	250,000
Ilario Faenza - resigned on 26 July 2011	530,000	-

See Note 27 of the consolidated financial statements for further details.

Employees

The consolidated entity employed 129 full time equivalent employees as of 30 June 2011 (2010: 156).

Share Options

The entity 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 5.375 million unissued ordinary shares under options. See Note 21 (c) to the consolidated financial statements for further details of the options outstanding.

As at 30 June 2011, 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:

Number of Meetings	Board Meetings	Audit and Risk Committee	Remuneration and Nomination Committee
	Attend / Held	Attend / Held	Attend / Held
Greg McCann	13 / 13	1 / 1	1 / 1
Chiao-Heng (Charles) Huang	13 / 13	n/a	1 / 1
Barry Chan	12 / 13	n/a	n/a
Jeffrey Ma	13 / 13	n/a	n/a
Stephe Wilks	13 / 13	1 / 1	1 / 1
Ilario Faenza ⁽¹⁾	12 / 13	1 / 1	1 / 1

⁽¹⁾ Ilario Faenza resigned from Remuneration and Nomination Committee and Audit and Risk Committee effective 26 July 2011.

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

Ilario Faenza - resigned on 26 July 2011

Remuneration and Nomination Committee

Greg McCann (Chairman)

Chiao-Heng (Charles) Huang

Stephe Wilks

Ilario Faenza - resigned on 26 July 2011

Indemnification and Insurance of Directors and Officers and Auditors

The entity has entered into a directors' & officers' insurance contract on 30 June 2010 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 \$12,600.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the entity or of any related body corporate against a liability incurred as such an officer or auditor.

Remuneration Report (Audited)

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 executives 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.

Employee Share Ownership Plan

The Employee Share Ownership Plan (ESOP) was approved by shareholders at the Annual General Meeting on 30 November 2009. This plan is intended to replace the previously approved Employee Option Plan (EOP) instituted on 23 May 2007, which the board believes is no longer as effective in light of proposed changes to the taxation of options in recipients hands.

The ESOP aims to motivate, retain and attract quality employees and directors of the company to create a commonality of purpose between the employees and directors and the company. The ESOP is operated by way of the company issuing new shares to participants, with an amount equal to the subscription price for those shares being loaned to the participant by the company. That loan secured by the company taking security over the shares which are subject to a holding lock period of ten years, is interest free with recourse only to the shares. The loan is to be repaid over time by the participant (whether through dividends, specific payments to reduce the loan, or on sale of the underlying shares).

Shares issued under the ESOP will rank from the date of issue equally with the other shares in the company then on issue.

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.

Non-executive directors are eligible to the shares granted under the Employee Share Ownership Plan.

Executive Director and Executives Remuneration

Remuneration granted to the executive directors and other 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 executive receives remuneration commensurate with their position and responsibilities within the company.

Executive directors and executives are eligible to the shares granted under the Employee Share Ownership Plan.

Remuneration of Directors

The following tables set out the remuneration received by the directors of the company during the financial years ending 30 June 2011 and 30 June 2010.

2011	Short Term Benefits		Post Employment	Equity Based	Total
	Salary and Fees \$	Non-Cash Benefits \$	Superannuation \$	Share-based Payments ⁽⁴⁾ \$	
Greg McCann	66,150	-	5,953	-	72,103
Chiao-Heng (Charles) Huang	185,364	-	16,682	-	202,046
Barry Chan	160,765	-	13,759	-	174,524
Jeffrey Ma	115,747	32,966	47,719	-	196,432
Stephe Wilks ⁽²⁾	62,364	-	-	-	62,364
Ilario Faenza ⁽³⁾	48,069	-	-	-	48,069
	<u>638,459</u>	<u>32,966</u>	<u>84,113</u>	<u>-</u>	<u>755,538</u>

2010	Short Term Benefits		Post Employment	Equity Based	Total
	Salary and Fees \$	Non-Cash Benefits \$	Superannuation \$	Share-based Payments ⁽⁴⁾ \$	\$
Greg McCann	66,150	-	5,953	11,290	83,393
Chiao-Heng (Charles) Huang	185,364	-	16,682	60,233	262,279
Barry Chan	152,652	-	13,738	30,113	196,503
Jeffrey Ma	138,439	33,673	23,758	30,113	225,983
Ryan O'Hare ⁽¹⁾	14,700	-	1,323	-	16,023
Stephe Wilks ⁽²⁾	62,364	-	-	9,300	71,664
Ilario Faenza ⁽³⁾	32,046	-	-	-	32,046
	651,715	33,673	61,454	141,049	887,891

⁽¹⁾ Ryan O'Hare resigned as director on 22 January 2010.

⁽²⁾ 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.

⁽³⁾ Director fees have been paid to Aggregato Pty Ltd, for procuring the services of Ilario Faenza to act as a director. Aggregato Pty Ltd is responsible for Ilario Faenza's employment expenses, including statutory superannuation. Ilario Faenza resigned as director on 26 July 2011.

⁽⁴⁾ This represents the value of shares that have been issued to the named directors under the Employee Share Ownership Plan (ESOP). The issue of shares under the ESOP has been treated as issue of share options and accounted for under the Australian Accounting Standards AASB 2 Share-based Payment.

Other than 5,000,000 shares granted to employees and directors under the Employee Share Ownership Plan (ESOP) on 16 December 2009, no further ESOP shares were issued.

The proposed deferral of the grant of equity to Ilario Faenza was noted by the Remuneration and Nomination Committee that he had not been granted an equity incentive upon his appointment as a non-executive director on 22 January 2010.

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
Peter Huang	Chief Information Officer

TEL.PACIFIC LIMITED

The following tables set out the remunerations received by the senior executives of the company during the financial years ending 30 June 2011 and 30 June 2010.

2011	Short Term Benefits		Post Employment	Equity Based	Total
	Salary and Fees	Non-Cash Benefits	Superannuation	Share-based Payments ⁽¹⁾	
	\$	\$	\$	\$	\$
Charles Hsieh	113,524	-	10,006	-	123,530
Gavin Mattig	100,136	15,848	10,677	-	126,661
Huy Nguyen	121,530	-	10,560	-	132,090
Peter Huang	113,333	-	10,200	-	123,533
	<u>448,523</u>	<u>15,848</u>	<u>41,443</u>	<u>-</u>	<u>505,814</u>

2010	Short Term Benefits		Post Employment	Equity Based	Total
	Salary and Fees	Non-Cash Benefits	Superannuation	Share-based Payments ⁽¹⁾	
	\$	\$	\$	\$	\$
Charles Hsieh	106,749	2,548	9,401	-	118,698
Gavin Mattig	99,402	15,229	10,717	-	125,348
Huy Nguyen	103,635	-	8,965	-	112,600
Peter Huang	119,999	-	9,000	13,950	142,949
	<u>429,785</u>	<u>17,777</u>	<u>38,083</u>	<u>13,950</u>	<u>499,595</u>

⁽¹⁾ This represents the value of shares that have been issued to the named executives under the Employee Share Ownership Plan (ESOP). The issue of shares under the ESOP has been treated as issue of share options and accounted for under the Australian Accounting Standards AASB 2 Share-based Payment.

Key Terms of Employment Agreements

Apart from the non-executive directors, all key management personnel are employed under standard company employment agreements. With the exception of the executive directors whereas either party may terminate the agreement by giving a three months notice period to the other terminating the agreement, the notice period of standard company employment agreements is one month.

None of these agreements provide for termination conditions or payments. The board considers that the significant equity holding of executive directors mitigates any risk of not having formal termination clauses.

Any termination entitlements payable to the key management personnel would be considered in light of the relevant circumstances and would be determined after consideration of entitlements of common law rights.

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 equity 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 three years.

The following table shows the gross revenue, profits and dividends over the last three years. The result for the year ended 30 June 2011 was adversely affected by the investment in Hello Mobile prepaid international mobile product as discussed in the Directors' Report. The launch of Hello Mobile and the acquisition of the Mobile Real Time Monitoring intelligent networking platform allow for future growth of the company and restoring growth in operating earnings for the business over the coming years. The expansion of the mobile business with the improved mobile gross margin has lead to increased shareholder wealth over the past years.

	2011	(Restated) 2010	(Restated) 2009
Revenue	\$60.14 m	\$54.15m	\$63.54m
(Loss)/Profit from continuing operations after tax	(\$1.98 m)	\$1.05 m	\$2.49 m
Underlying (loss)/profit from continuing operations after tax	(\$1.98 m)	\$1.05 m	\$3.21 m
Share price at year end	\$0.06	\$0.14	\$0.09
Interim dividend	0.40 cents	0.40 cents	0.40 cents
Final dividend	0.00 cents	0.40 cents	0.40 cents

This concludes the Remuneration Report which has been audited.

Proceedings on Behalf of Company

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

The consolidated entity 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 17.

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 \$16,130 for the provision of tax services.

Corporate Governance

The directors of the company support and adhere to the principle of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability. A review of the company's corporate governance practices was undertaken during the year to ensure they remained optimal. Please refer to the corporate governance statement in this report.

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



Greg McCann
Chairman



Chiao-Heng (Charles) Huang
Managing Director

Dated this 22 August 2011

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

TO THE DIRECTORS OF TEL.PACIFIC LIMITED:

Auditor's Independence Declaration

As lead audit partner for the audit of Tel.Pacific Limited for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Tel.Pacific Limited and the entities it controlled during the year.



PKF



Arthur Milner
Partner

Sydney, 22 August 2011

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TEL.PACIFIC LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	(Restated) 2010 \$
Revenue	2	60,139,884	54,154,876
Cost of sales		(47,884,905)	(39,569,782)
Gross profit		12,254,979	14,585,094
Other income	2	516,917	611,196
		12,771,896	15,196,290
Operating expenses	3	(6,355,371)	(5,654,658)
Employee benefits expense		(8,018,003)	(6,418,565)
Earnings before interest expense, taxation, depreciation, amortisation and impairment (EBITDA)		(1,601,478)	3,123,067
Depreciation and amortisation	4	(1,000,327)	(919,074)
Impairment	4	-	(89,091)
Earnings before interest expense and taxation (EBIT)		(2,601,805)	2,114,902
Finance costs	4	(259)	(287)
(Loss)/profit before income tax		(2,602,064)	2,114,615
Income tax benefit/(expense)	5	621,213	(1,062,168)
Loss/(profit) for the year		(1,980,851)	1,052,447
Other comprehensive income			
Exchange differences on translating foreign operations		42,066	(9,840)
Other comprehensive (loss)/income for the period, net of tax		42,066	(9,840)
Total comprehensive (loss)/income for the year		(1,938,785)	1,042,607
(Loss)/profit attributable to: Members of Tel.Pacific Limited		(1,980,851)	1,052,447
Total comprehensive (loss)/income attributable to: Members of Tel.Pacific Limited		(1,938,785)	1,042,607
Earnings per share		Cents	Cents
- Basic earnings per share	6	(1.85)	1.00
- Diluted earnings per share	6	(1.85)	1.00

The accompanying notes form part of these consolidated financial statements.

TEL.PACIFIC LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

		2011	(Restated) 2010
	Note	\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	9	4,359,792	10,970,390
Trade and other receivables	10	7,796,376	8,030,094
Inventories	11	932,340	315,391
Other assets	12	6,225,203	7,948,018
Non-current assets classified as held for sale	13	442,782	-
Total Current Assets		19,756,493	27,263,893
Non-Current Assets			
Investments accounted for using equity method	14	50	50
Property, plant and equipment	16	2,476,582	3,155,360
Intangible assets	17	8,293,064	8,293,064
Deferred tax assets	5	958,211	765,606
Total Non-Current Assets		11,727,907	12,214,080
TOTAL ASSETS		31,484,400	39,477,973
LIABILITIES			
Current Liabilities			
Trade and other payables	18	20,668,567	24,975,731
Borrowings	19	7,153	7,324
Income tax payable		63,135	699,138
Short term provisions	20	608,844	593,617
Total Current Liabilities		21,347,699	26,275,810
Non-Current Liabilities			
Borrowings	19	5,716	14,232
Long term provisions	20	388,138	273,076
Deferred tax liabilities	5	748,128	1,180,233
Total Non-Current Liabilities		1,141,982	1,467,541
TOTAL LIABILITIES		22,489,681	27,743,351
NET ASSETS		8,994,719	11,734,622
EQUITY			
Issued capital	21	8,142,010	8,085,633
Reserves	22	540,309	498,243
Retained profit		312,400	3,150,746
TOTAL EQUITY		8,994,719	11,734,622

The accompanying notes form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011**

	Issued Capital \$	Reserves \$	Retained Earnings \$	Total \$
Consolidated				
Balance at 1 July 2009	8,042,232	344,688	2,918,648	11,305,568
Prior period adjustment	-	-	17,146	17,146
Balance at 1 July 2009 - restated	8,042,232	344,688	2,935,794	11,322,714
Payments related to shares issued under ESOP	43,401	-	-	43,401
Dividends paid	-	-	(837,495)	(837,495)
Employee equity benefits reserve	-	163,395	-	163,395
Total comprehensive income for the year (Restated)	-	(9,840)	1,052,447	1,042,607
Balance at 30 June 2010	<u>8,085,633</u>	<u>498,243</u>	<u>3,150,746</u>	<u>11,734,622</u>
Balance at 1 July 2010	8,085,633	498,243	3,150,746	11,734,622
Payments related to shares issued under ESOP	56,377	-	-	56,377
Dividends paid	-	-	(857,495)	(857,495)
Total comprehensive income/(loss) for the year	-	42,066	(1,980,851)	(1,938,785)
Balance at 30 June 2011	<u>8,142,010</u>	<u>540,309</u>	<u>312,400</u>	<u>8,994,719</u>

TEL.PACIFIC LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		64,406,923	59,072,397
Payments to suppliers and employees		(68,519,316)	(56,113,856)
Interest received		392,017	612,771
Income tax paid		(639,500)	(852,438)
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	9	<u>(4,359,876)</u>	<u>2,718,874</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment		(641,387)	(783,761)
Acquisition of business		(1,008,000)	(2,887,663)
Payment to acquire interest in joint venture		-	(50)
Proceeds from disposal of equipment		6,414	7,000
Proceeds from bank deposits		202,056	857,013
NET CASH USED IN INVESTING ACTIVITIES		<u>(1,440,917)</u>	<u>(2,807,461)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from finance lease liabilities		-	23,451
Repayment of finance lease liabilities		(8,687)	(1,895)
Proceeds from shares issued under ESOP		56,377	43,401
Dividends paid		(857,495)	(837,495)
NET CASH USED IN FINANCING ACTIVITIES		<u>(809,805)</u>	<u>(772,538)</u>
Net decrease in cash held		(6,610,598)	(861,125)
Cash held at the beginning of the financial year		10,970,390	11,831,515
CASH AT THE END OF FINANCIAL YEAR	9	<u><u>4,359,792</u></u>	<u><u>10,970,390</u></u>

The accompanying notes form part of these consolidated financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The 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 consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

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.

This financial report includes the consolidated financial statements and notes of Tel.Pacific Limited and the controlled entities (consolidated group or group).

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 consolidated 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 2011 was authorised for issue in accordance with a resolution of the Tel.Pacific Board of Directors on 22 August 2011.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy.

The adoption of these Accounting Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity. The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvement Project
The consolidated entity has applied AASB 2009-5 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

AASB 107 'Statement of Cash Flows' - only expenditure that results in a recognised asset can be classified as cash flow from investing activities;

TEL.PACIFIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

AASB 118 'Revenue' - provides additional guidance to determine whether an entity is acting as a principal or agent; and

AASB 136 'Impairment of Assets' - clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 'Operating Segments' before aggregation for reporting purposes.

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvement Project

The consolidated entity has applied AASB 2010-3 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

AASB 127 'Consolidated and Separate Financial Statements' and AASB 3 'Business Combinations' - clarifies that contingent consideration from a business combination that occurred before the effective date of revised AASB 3 is not restated; the scope of the measurement choices of non-controlling interest is limited to when the rights acquired include entitlement to a proportionate share of net assets in the event of liquidation; requires an entity in a business combination to account for the replacement of acquiree's share-based payment transactions, unreplaced and voluntarily replaced, by splitting between consideration and post combination expenses.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Tel.Pacific Limited at the end of the reporting period. A controlled entity is any entity over which Tel.Pacific Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the group during the year the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 14 to the consolidated financial statements.

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.

The consolidated group's interests in joint venture entities are brought to account using equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account at cost.

(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 acquisition method.

Consideration transferred for the acquisition comprises the fair value of the assets transferred, liability incurred and the equity interests issued by the acquirer. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate. Acquisition related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the acquirer's share of net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

(c) Income Tax

The income tax expense or benefit 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 consolidated statement of comprehensive income, 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 consolidated 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 and joint ventures, 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 be occurring 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 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, 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 consolidated statement of comprehensive income 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% - 33%
Motor Vehicles	15%

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains or losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Non-current assets or disposal groups lassified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

(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.

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.

Financial Liabilities

Non derivative financial liabilities are subsequently measured at amortised cost.

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 consolidated statement of comprehensive income.

Financial Guarantees

Where material, financial guarantees are issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118 Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

(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 consolidated statement of comprehensive income.

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 as the excess of the sum of the consideration and the fair value of the net identifiable assets of the entity acquired as at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is tested annually for impairment and carried 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 disposed.

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 judgment is 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 consolidated statement of comprehensive income.

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 consolidated statement of comprehensive income.

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 consolidated statement of financial position. These differences are recognised in the consolidated statement of comprehensive income for the period the operation is disposed.

(k) Employee Benefits**Annual Leave/Long Service Leave**

Provision is made for the consolidated entity'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.

TEL.PACIFIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(l) 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.

(m) Trade Receivables

Trade and other receivables are stated at amortised cost less impairment losses.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. Provision for impairment of trade receivables is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment loss had been recognised becomes uncollectible in a subsequent period, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(n) Trade and Other Payables

Trade and other payables are stated at amortised cost.

(o) 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.

(p) 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).

(q) 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.

(r) 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.

(s) Segment Reporting

Operating segments are reported in manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

(t) Interests in Joint Venture

The consolidated group interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account at cost.

(u) Comparatives

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

(v) 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.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Estimation of commission costs

The key assumption used in the calculation of commission costs in cost of sales in the consolidated statement of comprehensive income is the effective rate which represents the average rate of actual commission paid over a period of time. The effective rate is subject to ongoing review and updated every year. Starting as of 1 July 2010, the effective rate has changed from the average rate of actual commission paid over a period of three years to the rolling average rate of actual commission paid over a period of three months.

Goodwill

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1 (h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

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

Australian Accounting Standards and Interpretations that have recently issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2011. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of IASB's project to replace IAS 39 (being the international equivalent to AASB 139 "Financial Instruments: Recognition and Measurement"). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any recycling of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011.

These amendments are a consequence of the annual improvements project and make numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provide clarification of disclosures in AASB 7 "Financial Instruments: Disclosures", in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instrument; clarifies that an entity can present analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 "Presentation of Financial Instruments"; and provides guidances on the disclosure of significant events and transactions in AASB 134 "Interim Financial Reporting". The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 2010-5 Amendments to Australian Accounting Standards

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011.

These amendments makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 124 Related Party Disclosure (December 2009)

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2011.

This revised standard simplifies the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. This revised standard introduces a partial exemption of disclosure requirement for government-related entities. The adoption of this standard from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. The consolidated entity is yet to quantify the tax effect of adopting these amendments from 1 July 2012.

TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	\$	\$
NOTE 2: REVENUE		
Operating Activities		
- Rendering of Services	60,139,884	54,154,876
	<u>60,139,884</u>	<u>54,154,876</u>
Other Income		
- Interest Income	369,970	578,319
- Resale Income	146,946	18,470
- Sundry Income	-	14,407
	<u>516,917</u>	<u>611,196</u>

NOTE 3: OPERATING EXPENSES

Occupancy Expense	891,288	874,096
Advertising and Promotion Expense	1,654,666	1,551,625
Communication Expense	155,323	153,660
Professional Fees	896,358	759,018
Bank and Merchant Fees	251,033	260,270
Travel Expense	488,666	429,960
Bad and Doubtful Debts Expense	590,319	472,538
Operating Lease Rentals	159,899	159,899
Foreign Exchange Losses	190,286	33,700
Losses on Disposal of Property, Plant and Equipment	7,844	973
Other Expenses	1,069,689	958,919
	<u>6,355,371</u>	<u>5,654,658</u>

NOTE 4: DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation of Non-current Assets	1,000,327	919,074
Total Depreciation and Amortisation	<u>1,000,327</u>	<u>919,074</u>
Impairment of goodwill ⁽¹⁾	-	89,091
Total Impairment	<u>-</u>	<u>89,091</u>

⁽¹⁾ Impairment of goodwill relates to New Zealand CGU and has arisen due to insufficient growth in market share in New Zealand which leads in weaker outlook of future cash flows. Refer to Note 17 for further details regarding impairment.

Finance costs	<u>259</u>	<u>287</u>
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TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2011
\$

2010
\$

NOTE 5: INCOME TAX EXPENSE
(a) Income Tax Expenses

The major components of income tax expense are:

Current tax expense	-	707,898
Overprovision in respect of prior years	(12,360)	(63)
Deferred tax resulting from the origination and reversal of temporary differences	(490,989)	35,922
Deferred tax income relating from the recognition of tax loss	(117,864)	318,411
	<u>(621,213)</u>	<u>1,062,168</u>

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

Profit before income tax expense	(2,602,064)	2,114,615
Prima facie tax expense on profit from ordinary activities is 30% (2010: 30%)		
- Consolidated entity	(780,619)	634,385
Non-deductable items	171,766	199,594
Overprovision in respect of prior years	(12,360)	(63)
Investment allowance	-	(10,458)
Derecognition of prior year's deferred tax	-	238,710
Income tax expense attributable to profit from ordinary activities	<u>(621,213)</u>	<u>1,062,168</u>

(c) Deferred Tax Asset/(Liability)

	Opening Balance \$	Charged to Income \$	Charged directly to Equity \$	Exchange Difference \$	Closing Balance \$
Deferred tax liability					
Property Plant and equipment	107,912	(933)	-	-	106,979
Deferred commission costs	784,852	275,899	-	-	1,060,751
Others	24,176	(11,673)	-	-	12,503
Balance as at 30 June 2010	<u>916,940</u>	<u>263,293</u>	<u>-</u>	<u>-</u>	<u>1,180,233</u>
Property Plant and equipment	106,979	(90,513)	-	-	16,466
Deferred commission costs	1,060,751	(335,618)	-	-	725,133
Others	12,503	(5,974)	-	-	6,529
Balance as at 30 June 2011	<u>1,180,233</u>	<u>(432,105)</u>	<u>-</u>	<u>-</u>	<u>748,128</u>

TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	Opening Balance \$	Charged to Income \$	Charged directly to Equity \$	Exchange Difference \$	Closing Balance \$
Deferred tax assets					
Provision	369,133	150,563	-	-	519,696
Assessed loss	318,411	(318,411)	-	-	-
Others	169,294	76,616	-	-	245,910
Balance as at 30 June 2010	856,838	(91,232)	-	-	765,606
Provision	519,696	42,655	-	-	562,351
Assessed loss	-	117,864	-	-	117,864
Others	245,910	32,086	-	-	277,996
Balance as at 30 June 2011	765,606	192,605	-	-	958,211

(1) Deferred tax assets for tax loss of a New Zealand subsidiary not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 (c) occur:

- tax losses: \$1,392,242

(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.

	2011 \$	2010 \$
NOTE 6: EARNINGS PER SHARE		
Basic earnings per share (cents per share)	(1.85)	1.00
Diluted earnings per share (cents per share)	(1.85)	1.00
Net earnings used in the calculation of basic and diluted EPS	(1,980,851)	1,052,447
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted EPS	107,186,925	104,871,857

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 2011.

NOTE 7: DIVIDENDS PAID AND PROPOSED**(a) Recognised Amounts**

	2011		2010	
	Cents per Share	Total \$	Cents per Share	Total \$
(i) Dividends paid during the year:				
Final dividend (prior year) - fully franked	0.4	428,748	0.4	408,747
Interim dividend - fully franked	0.4	428,747	0.4	428,748
Total	0.8	857,495	0.8	837,495
(ii) Dividends declared and not recognised as a liability:				
Final dividends - fully franked ⁽¹⁾	-	-	0.4	428,748

(b) Franking Credit Balance

	2011 \$	2010 \$
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% (2010: 30%)	1,784,460	1,535,120
- Franking credits that will arise from the payment of income tax payable as at the end of the financial year	-	613,341
The amount of franking credits available for future reporting periods:	1,784,460	2,148,461
- 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	-	(183,749)
	1,784,460	1,964,712

The tax rate at which paid dividends have been franked is 30% (2010: 30%).

TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	\$	\$
NOTE 8: AUDITORS REMUNERATION		
Auditors of the parent entity		
Audit and review of Financial Reports	99,452	88,200
Taxation Services	16,130	19,300
	<u>115,582</u>	<u>107,500</u>
Other Auditors		
Audit of Financial Report	4,650	2,545
Total auditors remuneration	<u>120,232</u>	<u>110,045</u>
NOTE 9: CASH AND CASH EQUIVALENTS		
(a) Cash Balance		
Cash at Bank	4,359,792	10,970,390
	<u>4,359,792</u>	<u>10,970,390</u>
(b) Reconciliation of Cash Flow from Operations with Profit after Income Tax		
(loss)/profit after income tax	(1,980,851)	1,052,447
Non-cash flows in profit		
Depreciation and amortisation	1,000,327	919,074
Impairment of goodwill	-	89,090
Share based payment	-	163,394
Loss on asset disposals	7,844	1,017
Changes in assets and liabilities		
Decrease/(Increase) in prepayments	33,973	(227,768)
Increase/(Decrease) in trade & other receivables	925,627	(2,189,620)
(Decrease)/Increase in trade & other payables	(4,477,085)	2,741,468
Increase in other provisions	130,289	169,772
	<u>(4,359,876)</u>	<u>2,718,874</u>

TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2011	2010
\$	\$

NOTE 10: TRADE AND OTHER RECEIVABLES

Current:

Trade Receivables	5,810,382	5,217,002
Provision for Impairment of Receivables	(1,001,695)	(985,822)
Unbilled Receivables - Refer to Note 18 (a)	2,921,303	3,689,996
Other Receivables	66,386	108,918
	<u>7,796,376</u>	<u>8,030,094</u>

The movement in the provision for impairment in respect of trade receivables and other receivables are detailed below:

Opening balance	(985,822)	(645,861)
- Provision for impairment recognised during the year	(572,957)	(454,168)
- Receivables written off during the year as uncollectible	557,084	114,207
Closing balance	<u>(1,001,695)</u>	<u>(985,822)</u>

Credit Policy

The group requires customers to pay in accordance with agreed terms. Trade debtors are non-interest bearing and are generally on 30-90 days terms. 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 consolidated statement of financial position.

Ageing of trade receivables at the reporting date was

Not past due	4,126,323	3,305,421
Past due 0 - 30 days	302,632	612,077
Past due 31 - 60 days	289,423	176,462
Past due 61 - 90 days	225,152	137,220
Past due 90 days over	866,852	985,822
Total	<u>5,810,382</u>	<u>5,217,002</u>
Impairment losses	<u>(1,001,695)</u>	<u>(985,822)</u>
Trade receivables net of provision for impairment	<u>4,808,687</u>	<u>4,231,180</u>

TEL.PACIFIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011	2010
	\$	\$
NOTE 11: INVENTORIES		
Current:		
Inventories	<u>932,340</u>	<u>315,391</u>

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

NOTE 12: OTHER ASSETS

Current:		
Deferred Commission Costs	5,033,038	6,381,672
Prepayments	450,849	634,822
Security Deposit	40,352	28,504
Bank Deposits ⁽¹⁾	<u>700,964</u>	<u>903,020</u>
	<u>6,225,203</u>	<u>7,948,018</u>

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

NOTE 13: CURRENT ASSETS - ASSETS CLASSIFIED AS HELD FOR SALE

The company entered into a sales contract with a third party on 17 May 2011 to sell the Melbourne office and the disposal was completed on 13 July 2011. Refer to Note 33 for further details. In accordance with AASB 5: Non-current Assets Held for Sale and Discontinued Operations" the carrying value of Real Estate Property has been classified as held for sale as at 30 June 2011.

Real Estate Properties	519,146
Less: Accumulated Depreciation	<u>(76,364)</u>
Carrying Amount	<u>442,782</u>

NOTE 14: INVESTMENTS - ACCOUNTED FOR USING THE EQUITY METHOD

Interest in joint venture entity	<u>50</u>	<u>50</u>
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On 11 June 2010, a joint venture entity Realtime Mobile Pty Ltd was established by Tel.Pacific Limited and Agregato Pty Ltd. Tel.Pacific Limited has 50% interest in the joint venture entity.

The interest in Realtime Mobile Pty Ltd is accounted for in the consolidated financial statements using the equity method of accounting and is carried at cost by the parent entity. The joint venture entity has not yet commenced any business activity since the date of incorporation.

TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011
NOTE 15: CONTROLLED ENTITIES

	Country of Incorporation	Holding 2011 %	2010 %	Company's recorded 2011 \$	2010 \$
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%	100%	1	1
Tel.Pacific (Hong Kong) Limited	Hong Kong	100%	100%	2,000	2,000
Tel.Pacific New Zealand Limited	New Zealand	100%	100%	8,546	8,546
Tel.Pacific Singapore Pte Limited	Singapore	100%	100%	86,558	86,558
Investment in controlled entities				97,217	97,217
Impairment losses				(8,546)	(8,546)
Total investment in controlled entities				88,671	88,671
				2011 \$	2010 \$

NOTE 16: PROPERTY, PLANT AND EQUIPMENT

Leased Plant & Equipment	26,886	29,732
Less: Accumulated Depreciation	(13,443)	(2,973)
	13,443	26,759
Motor Vehicles	164,417	170,908
Less: Accumulated Depreciation	(62,436)	(42,086)
	101,981	128,822
Network Equipment & Software	5,321,215	4,742,853
Less: Accumulated Depreciation	(3,566,964)	(2,842,742)
	1,754,251	1,900,111
Office Equipment & Software	927,378	833,310
Less: Accumulated Depreciation	(638,494)	(514,927)
	288,884	318,383
Office Fittings & Furniture	513,004	452,787
Less: Accumulated Depreciation	(194,981)	(125,193)
	318,023	327,594
Real Estate Properties	-	519,146
Less: Accumulated Depreciation	-	(65,455)
	-	453,691
	2,476,582	3,155,360

TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011
Movement in Carrying Amount

2011	Leased Plant & Equipment	Motor Vehicles	Network Equipment & Software	Office Equipment & Software	Office Fittings & Furniture	Real Estate Properties	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at the beginning of the year	26,759	128,822	1,900,111	318,383	327,595	453,691	3,155,361
Additions	-	7,129	595,503	128,349	60,406	-	791,387
Assets classified as held for sale ⁽¹⁾	-	-	-	-	-	(442,782)	(442,782)
Disposal	-	(11,344)	-	(2,914)	-	-	(14,258)
Depreciation Expense	(11,122)	(22,626)	(730,949)	(154,873)	(69,848)	(10,909)	(1,000,327)
Foreign currency exchange difference	(2,194)	-	(10,414)	(61)	(130)	-	(12,799)
Balance at the end of the year	13,443	101,981	1,754,251	288,884	318,023	-	2,476,582

⁽¹⁾ Refer to Note 13

2010	Leased Plant & Equipment	Motor Vehicles	Network Equipment & Software	Office Equipment & Software	Office Fittings & Furniture	Real Estate Properties	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at the beginning of the year	-	144,717	1,996,147	248,189	345,858	464,600	3,199,511
Additions	29,732	14,404	573,369	220,968	45,288	-	883,761
Disposal	-	(7,022)	-	(995)	-	-	(8,017)
Depreciation Expense	(2,890)	(23,277)	(668,637)	(149,789)	(63,572)	(10,909)	(919,074)
Foreign currency exchange difference	(83)	-	(768)	10	20	-	(821)
Balance at the end of the year	26,759	128,822	1,900,111	318,383	327,594	453,691	3,155,360

Lease Assets

Leased plant & equipment includes the following amounts where the group is a lessee under a finance lease:

	2011	2010
	\$	\$
Leased motor vehicle		
Cost	26,759	29,732
Accumulated depreciation	(13,316)	(2,973)
Net book amount	13,443	26,759

Refer to Note 19 for information on non-current assets pledged as security by the consolidated entity.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
NOTE 17: INTANGIBLE ASSETS		
(a) Reconciliation of Carrying Amounts at the Beginning and End of the Year		
Goodwill	8,267,985	8,272,435
Accumulated impairment losses	(84,923)	(89,373)
	<u>8,183,062</u>	<u>8,183,062</u>
Patent	2	2
	<u>2</u>	<u>2</u>
Trademarks	110,000	110,000
	<u>110,000</u>	<u>110,000</u>
Research and Development	160,330	160,330
Accumulated Amortisation	(160,330)	(160,330)
	<u>-</u>	<u>-</u>
	<u><u>8,293,064</u></u>	<u><u>8,293,064</u></u>
Movement in Carrying Amount		
Goodwill		
Balance at the beginning of the year	8,183,062	4,471,572
Acquisition through business combinations	-	3,800,000
Impairment	-	(89,091)
Foreign currency exchange difference	-	581
Balance at the end of the year	<u><u>8,183,062</u></u>	<u><u>8,183,062</u></u>
Patent		
Balance at the beginning of the year	2	2
Balance at the end of the year	<u><u>2</u></u>	<u><u>2</u></u>
Trademarks		
Balance at the beginning of the year	110,000	110,000
Balance at the end of the year	<u><u>110,000</u></u>	<u><u>110,000</u></u>
Research and Development		
Balance at the beginning of the year	-	52,650
Derecognition of development costs	-	(52,650)
Balance at the end of the year	<u><u>-</u></u>	<u><u>-</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, acquired through business combinations, have been assessed as having an indefinite life and are measured at cost less any accumulated impairment losses.

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 are amortised using the straight-line method over the periods disclosed in Note 1 (i). 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.

(c) Impairment Testing of Goodwill

As at 30 June 2011, the carrying amount of goodwill for the group was \$8,183,062 (2010: \$8,183,062).

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

Australian CGU

As at 30 June 2011, the carrying amount of goodwill allocated to Australian CGU was \$8,183,062 (2010: \$8,183,062).

The recoverable amount of the Australian CGU has been determined based on the value in use methodology using cash flow projections based on financial budgets approved by management covering a five year period together with a terminal value. The pre-tax discount rate applied to the cash flow projections is 11.82% (2010: 10.09%). The revenue growth rate 0.82% is used.

Management believes the projected 0.82% revenue growth rate is prudent and justified, based on current market situation. Discount rates are pre-tax and adjusted to incorporate risks associated with a particular segment.

The calculation of value in use is most sensitive to the following key assumptions:

- revenue growth rate

As disclosed in note 1, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these estimates not occur the resulting goodwill may vary in carrying amount. The sensitivities are as follows:

Revenue growth rate would need to decrease by more than 1.5% before goodwill would need to be impaired, with all other assumptions remaining constant.

Management consider that other 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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011****New Zealand CGU**

As at 30 June 2011, the carrying amount of goodwill allocated to New Zealand CGU was Nil (2010: Nil).

The recoverable amount of the New Zealand CGU has been determined based on the value in use 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 9.69% (2010: 11.78%). The model did not incorporate a growth rate beyond the five year period.

Management has prepared the budgets using historical weighted average growth rates or the rates as applicable to project revenue. Costs are calculated taking into account historical margins as well as estimated weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-tax and adjusted to incorporate risks associated with a particular segment.

The calculation of value in use 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.

	2011	2010
	\$	\$
NOTE 18: TRADE AND OTHER PAYABLES		
Current:		
Trade Payables	3,203,536	4,193,415
Other Payables	97,437	1,135,920
Accrued expenses	2,294,642	2,379,338
Sundry Payables	234,325	216,746
Goods and Services Tax Payable	249,444	199,135
Unearned Revenue (a)	14,589,183	16,851,177
	<u>20,668,567</u>	<u>24,975,731</u>
(a) Unearned revenue comprises of:		
- Revenue Received in Advance ⁽¹⁾	7,591,346	8,415,765
- Trade Receivables ⁽²⁾	4,076,534	4,745,416
- Unbilled Receivables ⁽³⁾	2,921,303	3,689,996
	<u>14,589,183</u>	<u>16,851,177</u>

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

⁽²⁾ Trade receivables represent the used component of unpaid calling cards - Refer to Note 10.

⁽³⁾ Unbilled receivable represent the unused component of unpaid calling cards - Refer to Note 10.

Refer to Note 24 for details in relation to financial guarantees.

TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
NOTE 19: BORROWINGS		
Current		
Finance leases - Refer to Note 23	<u>7,153</u>	<u>7,324</u>
Non Current		
Finance leases - Refer to Note 23	<u>5,716</u>	<u>14,232</u>
Refer to Note 16: Leased assets for details of assets secured under finance leases.		
Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.		
NOTE 20: PROVISIONS		
Short Term Provisions		
Leave Entitlement Provision	<u>608,844</u>	<u>593,617</u>
	<u>608,844</u>	<u>593,617</u>
Long Term Provisions		
Leave Entitlement Provision	272,840	201,648
Lease Provision	<u>115,298</u>	<u>71,428</u>
	<u>388,138</u>	<u>273,076</u>
Movements in Provisions		
(a) Leave Entitlement Provision (Short Term)		
Opening balance	593,617	345,717
- additional provisions	118,814	345,159
- amount used	<u>(103,587)</u>	<u>(97,259)</u>
Closing balance	<u>608,844</u>	<u>593,617</u>
(b) Lease Provision (Long Term)		
Opening balance	71,428	-
- additional provisions	<u>43,870</u>	<u>71,428</u>
Closing balance	<u>115,298</u>	<u>71,428</u>
(c) Leave Entitlement Provision (Long Term)		
Opening balance	201,648	238,868
- additional provisions	<u>71,192</u>	<u>(37,220)</u>
Closing balance	<u>272,840</u>	<u>201,648</u>

TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011		2010	
	Number	\$	Number	\$
NOTE 21: ISSUED CAPITAL				
(a) Ordinary Shares				
Issued and Fully Paid	95,644,985	7,999,055	95,644,985	7,999,055
Issued and Partially Paid - see (1) below	11,541,940	142,955	11,541,940	86,578
	<u>107,186,925</u>	<u>8,142,010</u>	<u>107,186,925</u>	<u>8,085,633</u>

(b) Movements in Ordinary Shares on Issue

Balance at the beginning of the year	107,186,925	8,085,633	102,186,925	8,042,232
Issue of 5,000,000 ordinary ESOP shares at \$0.135 per share on 16 December 2009	-	-	5,000,000	-
Payments related to ESOP shares	-	56,377	-	43,401
Balance at the end of the year	<u>107,186,925</u>	<u>8,142,010</u>	<u>107,186,925</u>	<u>8,085,633</u>

(1) The issue of shares under the Employee Shares Ownership Plan (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 28(c).

Effective 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.

Ordinary shares carry one vote per share and carry the right to dividends.

(c) Share Options - Refer to Note 28(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 2011 are:

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

(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.

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, buy-back shares and share issues.

Management paid dividends of \$857,495 during 2011 (2010: \$837,495).

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.

2011	2010
\$	\$

NOTE 22: 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	23,159	32,999
Gain/(Loss) on translation of overseas controlled entities	42,066	(9,840)
Balance at the end of the year	<u>65,225</u>	<u>23,159</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	475,084	311,689
Share-based payments	-	163,395
Balance at the end of the year	<u>475,084</u>	<u>475,084</u>

Total Reserves	<u>540,309</u>	<u>498,243</u>
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TEL.PACIFIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 \$	2010 \$
NOTE 23: CAPITAL AND LEASING COMMITMENTS		
Finance Lease Commitments		
Payable - minimum lease payments		
- not later than 1 year	7,898	8,733
- later than 1 year but not later than 5 years	5,901	15,260
Minimum lease payments	<u>13,799</u>	<u>23,993</u>
Less: future finance charges	930	2,437
Present value of minimum lease payments (Refer to Note 19)	<u>12,869</u>	<u>21,556</u>
- not later than 1 year	7,153	7,324
- later than 1 year but not later than 5 years	5,716	14,232
Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements.		
- not later than 1 year	1,212,653	1,098,887
- later than 1 year but not later than 5 years	2,685,363	3,128,867
Total lease commitments	<u>3,898,016</u>	<u>4,227,754</u>

NOTE 24: CONTINGENT LIABILITIES

As at 30 June 2011 the consolidated entity has issued bank guarantees totalling \$439,510 (2010: \$666,892) for which term deposits are held to secure this amount.

Apart from the bank guarantees and stand-by letter of credit, there are no contingent liabilities as at the date of signing of this report.

NOTE 25: 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.

During the year, the company has paid rental totalling \$30,940 (2010: \$29,770) 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 has paid rental totalling \$27,500 (2010: \$27,500) 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.

During the year, the company has paid goods and services in relation to mobile telecommunications totalling \$1,152,998 (2010: \$722,347) on normal commercial terms and conditions no more favourable than those available to other parties, to Aggregato Pty Ltd whom Ilario Faenza is a controlling shareholder. Ilario Faenza resigned as director of the company on 26 July 2011.

TEL.PACIFIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011****NOTE 26: BUSINESS COMBINATION**

During the year ended 30 June 2010 the following acquisition was made:

(a) MRTM Platform and Related Mobile Businesses

On 30 June 2010, Tel.Pacific Limited acquired the Mobile Real Time Monitoring (MRTM) intelligent networking platform, embedded within the network owned by Vodafone Hutchison Australia (VHA), and related mobile businesses from Service Stream Limited for the consideration of \$4.05 million.

The MRTM platform comprises an innovative and intelligent network switching solution integrated into the VHA network, with real time monitoring of mobile traffic associated with the platform. The system enables pre-paid and compelling corporate and government fleet management services for mobile networks. Tel.Pacific Limited previously worked with Service Stream Limited to customize the MRTM platform to deliver its recently developed Hello Mobile product.

	\$
<i>Consideration</i>	
Cash consideration for acquisition	2,887,663
Liabilities assumed	112,337
Deferred consideration ⁽¹⁾	<u>1,050,000</u>
Total cost of combination	<u><u>4,050,000</u></u>

⁽¹⁾ Deferred consideration must be paid within 10 business days from the later of:

- (a) the end of the transition period (maximum period of 4 months from the settlement date); and
- (b) the date the non-acquired items are removed from the MRTM Platform (maximum period of 11 months from the settlement date).

	MRTM Platform	
	Fair Value	Carrying
	\$	Value
		\$
<i>Assets recognised at acquisition date</i>		
Property, plant and equipment	100,000	100,000
Prepayment	150,000	150,000
Goodwill	<u>3,800,000</u>	<u>-</u>
Total	<u><u>4,050,000</u></u>	<u><u>250,000</u></u>
	\$	

Profit and loss from acquisition date until 30 June 2010

-

(b) Other Information Relating to Acquisitions

If the MRTM platform and related mobile businesses acquisition had occurred on 1 July 2009, the adjusted consolidated revenue and consolidated profit before income tax expense for the year ended 30 June 2010 would have been \$55,457,931 and \$2,548,997 respectively.

TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011
NOTE 27: 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
Stephe Wilks	Director (Non-executive)
Ilario Faenza	Director (Non-executive) - resigned on 26 July 2011

Executives

Charles Hsieh	National Sales Manager
Gavin Mattig	Group Human Resources Manager
Huy Nguyen	National Sales Manager
Peter Huang	Chief Information Officer

(b) Remuneration of Key Management Personnel

	2011 \$	2010 \$
Short-term Employee Benefits	1,135,796	1,132,950
Post-employment Benefits	125,556	99,537
Share-based Payments	-	154,999
	<u>1,261,352</u>	<u>1,387,486</u>

The remuneration paid to the key management personnel is detailed 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:

	Total Shares Held at Beginning of Year	Shares Issued under ESOP	Shares Acquired	Total Shares Held at End of Year	Shares that Held Nominally
Greg McCann	614,200	-	-	614,200	614,200
Chiao-Heng (Charles) Huang	43,890,173	-	-	43,890,173	3,350,600
Barry Chan	8,209,116	-	260,000	8,469,116	2,622,010
Jeffrey Ma	3,418,223	-	260,000	3,678,223	2,858,200
Stephe Wilks	350,000	-	-	350,000	350,000
Ilario Faenza ⁽¹⁾	380,000	-	150,000	530,000	-
Charles Hsieh	195,500	-	-	195,500	195,500
Huy Nguyen	913,463	-	-	913,463	622,200
Peter Huang	820,258	-	-	820,258	195,500

⁽¹⁾ resigned on 26 July 2011

Total shareholdings include shares held by key management personnel and their related entities. Unless related to the Employee Share Ownership Plan (ESOP) - see Note 28 (c), shares acquired or disposed during the year were on an arm's length basis at market price.

TEL.PACIFIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011****Option Holdings**

The number of share options granted to key management personnel during the financial year under the Employee Option Plan - see Note 28 (b) is as follows:

	Balance at Beginning of Year	Options Exercised	Options Expired	Balance at End of Year	Exercisable at 30 June 2011
Greg McCann	750,000	-	(375,000)	375,000	375,000
Chiao-Heng (Charles) Huang	4,000,000	-	(2,000,000)	2,000,000	2,000,000
Barry Chan	2,000,000	-	(1,000,000)	1,000,000	1,000,000
Jeffrey Ma	2,000,000	-	(1,000,000)	1,000,000	1,000,000
Stephe Wilks	500,000	-	(250,000)	250,000	250,000

NOTE 28: EMPLOYEE BENEFITS**(a) Executive Share Ownership Plan**

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

Under the terms of the Executive Share Ownership Plan, 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 Executive Share Ownership Plan has been treated as 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 Executive Share Ownership Plan.

(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.

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:

TEL.PACIFIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

- 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 Securities and Investments 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:

	Tranche 1	Tranche 2
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	3.5 years	4.5 years
Underlying Share Price	\$0.16	\$0.16
Expected Share Price Volatility	19.21%	19.21%
Risk-free Interest Rate	6.20%	6.20%
Dividend Yield	3.90%	3.90%

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.

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration Report on pages 11-15.

(c) Employee Share Ownership Plan

The Employee Share Ownership Plan (ESOP) was approved by the Annual General Meeting and established on 30 November 2009.

This plan is intended to replace the previously approved Employee Option Plan (EOP) instituted on 23 May 2007, which the board believes is no longer as effective in light of proposed changes to the taxation of options in recipients hands.

The ESOP aims to motivate, retain and attract quality employees and directors of the company to create commonality of purpose between the employees and directors and the company. The ESOP is operated by way of the company issuing new shares to participants, with an amount equal to the subscription price for those shares being loaned to the participant by the company. That loan secured by the company taking security over the shares which are subject to a holding lock period of ten years, is interest free with recourse only to the shares. The loan is to be repaid over time by the participant (whether through dividends, specific payments to reduce the loan, or on sale of the underlying shares).

TEL.PACIFIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Shares issued under the ESOP will rank from the date of issue equally with the other shares in the company then on issue.

All shares issued pursuant to the ESOP are held by a trustee appointed by the company in trust for the participant until such time as the loan is repaid. The loan becomes immediately repayable in the event of dismissal, resignation, death or retirement of the participant. 60% of all dividends and distributions made in respect of the shares must be applied towards repayment of the loan. Voting rights attached to the shares may only be exercised by the trustee holder in the best interest of the participant.

On 16 December 2009, a total of 5,000,000 shares were granted to the employees and directors of the company under the ESOP.

For accounting purposes, the share issue under the ESOP has been treated as 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 loan will be treated as partial payment to be applied towards the payment of shares issued under the ESOP.

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

Number of Options on Issue	5,000,000
Exercise Price	\$0.135
Time to Maturity	10 years
Underlying Share Price	\$0.102
Expected Share Price Volatility	71.48%
Risk-free Interest Rate	5.23%
Dividend Yield	7.84%

The number of options on issue represents the number of shares issued under the ESOP on 16 December 2009. 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.

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration Report on pages 11-15.

(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:

	2011 \$	2010 \$
Payments related to ESOP Shares	-	163,394
	-	163,394

(e) Superannuation Plan

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

(f) Employee Numbers

Number of full-time equivalent employees	129	156
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NOTE 29: 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's exposure to interest rate risk 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 is as follows:

	Note	Total \$	Weighted Average Effective Interest Rate
2011			
Financial Assets			
Cash	9	4,359,792	3.99%
Receivables - Term deposit	12	700,964	5.96%
		<u>5,060,756</u>	
2010			
Financial Assets			
Cash	9	10,970,390	3.82%
Receivables - Term deposit	12	903,020	6.69%
		<u>11,873,411</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, NZ dollar and SG 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. When it is required, the group will enter into forward exchange contracts to reduce and minimise 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 date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the consolidated statement of financial position.

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.

The group manages liquidity risk by monitoring cash flows requirements on a continuing basis.

The group's remaining contractual maturity amounts of \$3.8 million (2010: \$5.7 million) in trade payables and other payables were required to be paid within 1 year.

As at 30 June 2011, the group maintained a total of \$5.1 million in cash balance and bank deposits. Apart from the finance lease, the group did not have borrowings.

(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 consolidated financial statements.

(f) Summarised Sensitivity Analysis**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 2011				Year Ended 30 June 2010			
	Profit / Loss		Equity		Profit / Loss		Equity	
	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%
	\$	\$	\$	\$	\$	\$	\$	\$
Financial assets								
Cash and cash equivalents	32,675	(32,675)	-	-	32,228	(32,228)	-	-
Accounts receivable	3,419	(3,419)	-	-	3,764	(3,764)	-	-
Increase/(Decrease)	<u>36,094</u>	<u>(36,094)</u>	<u>-</u>	<u>-</u>	<u>35,992</u>	<u>(35,992)</u>	<u>-</u>	<u>-</u>

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 2011				Year Ended 30 June 2010			
	Profit / Loss		Equity		Profit / Loss		Equity	
	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%
	\$	\$	\$	\$	\$	\$	\$	\$
Increase/(Decrease)	70,695	(86,405)	148,987	(182,095)	29,226	(35,721)	115,016	(140,575)
	<u>70,695</u>	<u>(86,405)</u>	<u>148,987</u>	<u>(182,095)</u>	<u>29,226</u>	<u>(35,721)</u>	<u>115,016</u>	<u>(140,575)</u>

TEL.PACIFIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011****NOTE 30: SEGMENT REPORTING**

The consolidated entity has identified its operating segments based on the internal reports and that are reviewed and used by the chief operating decision makers in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on operating business geographical location. On this basis, management has identified three reportable segments, Australia, New Zealand and Singapore. Discrete financial information about each of these operating business is reported on a monthly basis.

Types of products and services

The consolidated entity operates primarily in the provision of pre-paid telephony products and services.

Accounting policies and inter-segment transactions

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent with the consolidated entity's policies described in Note 1.

	Australia \$	New Zealand \$	Singapore \$	Elimination \$	Total \$
2011					
Revenue					
Revenue from external customers	55,805,487	3,389,899	944,499	-	60,139,885
Other income	496,860	20,003	54	-	516,917
Inter-segment revenue	2,112,257	-	116,952	(2,229,209)	-
Total segment revenue	<u>58,414,604</u>	<u>3,409,902</u>	<u>1,061,505</u>	<u>(2,229,209)</u>	<u>60,656,802</u>
Result					
Earning before interest expense and taxation (EBIT)	(2,419,293)	(295,156)	(160,597)	273,242	(2,601,805)
Other Segment Information					
Depreciation	940,670	24,719	34,938	-	1,000,327
Assets and Liabilities					
Segment assets	30,944,082	1,351,572	406,268	(1,217,522)	31,484,400
- Additions to non-current assets	776,702	1,937	12,748	-	791,387
- Equity accounted joint venture	50	-	-	-	50
Segment liabilities	20,926,500	2,682,650	664,229	(1,783,698)	22,489,681

TEL.PACIFIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	Australia \$	New Zealand \$	Other non- reportable segments \$	Elimination \$	Total \$
2010					
Revenue					
Revenue from external customers	51,044,475	3,070,254	40,147	-	54,154,876
Other income	589,719	13,405	8,072	-	611,196
Inter-segment revenue	1,604,196	-	87,018	(1,691,214)	-
Total segment revenue	<u>53,238,390</u>	<u>3,083,659</u>	<u>135,237</u>	<u>(1,691,214)</u>	<u>54,766,072</u>
Result					
Earning before interest expense and taxation (EBIT)	1,847,524	(287,263)	(149,108)	703,463	2,114,616
Other Segment Information					
Depreciation	864,615	35,889	18,570	-	919,074
Goodwill impairment	8,546	89,091	-	(8,546)	89,091
Assets and Liabilities					
Segment assets	39,038,313	1,834,229	420,938	(1,815,507)	39,477,973
- Additions to non-current assets	4,534,408	-	149,354	-	4,683,762
- Equity accounted joint venture	50	-	-	-	50
Segment liabilities	26,501,274	1,564,479	597,131	(919,533)	27,743,351

NOTE 31: PRIOR PERIOD ADJUSTMENT

A prior period adjustment was identified in the current year in relation to the recognition of expiry revenue and the payment of payroll tax. The overall effect of the adjustment was:

	2010 \$
Consolidated Statement of Comprehensive Income	
Increase in Revenue	219,849
Increase in Cost of sales	(65,713)
Increase in Employee benefits expense	(95,786)
Increase in Income tax expense	(17,505)
Increase in Profit	<u>40,845</u>
Consolidated Statement of Financial Position	
Decrease in Other assets	(65,713)
Decrease in Trade and other payables	124,063
Increase in Income tax payable	(37,219)
Decrease in Deferred tax liabilities	19,714
Increase in Retained profit	<u>40,845</u>
Earnings per share	
- Increase in Basic earnings per share	0.04 Cents
- Increase in Diluted earnings per share	0.04 Cents

The prior period adjustment also resulted in an increase in Retained profit for periods prior to 2010 17,146

The error has been corrected by restating each of the affected financial statement line items for the prior year and retained earnings for periods prior to the last financial period.

TEL.PACIFIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011****NOTE 32: PARENT ENTITY DISCLOSURES**

	Company	
	2011	2010
	\$	\$
Current assets	18,493,984	26,684,129
Total assets	30,944,082	39,038,313
Current liabilities	20,538,362	24,965,037
Total liabilities	20,926,500	26,501,274
Issued capital	8,142,010	8,085,633
Reserve	468,247	475,084
Retained earnings	1,407,325	3,976,322
Shareholders' equity	10,017,582	12,537,039
(Loss)/profit for the year	(1,714,433)	1,252,073
Total comprehensive income	(1,714,433)	1,252,073

Parent entity contingencies

The details of all contingent liabilities in respect to Tel.Pacific Limited are disclosed in Note 24.

NOTE 33: EVENTS AFTER THE BALANCE DATE

The consolidated entity entered into a sales contract with a third party on 17 May 2011 to sell the Melbourne office. Sales proceeds of \$0.8 million were received on 13 July 2011. The net gain of \$0.3 million from the sale of the office has not been accounted for in the 30 June 2011 consolidated financial statements as the final settlement took place on 13 July 2011.

NOTE 34: COMPANY DETAILS

The company is incorporated and domiciled in Australia.

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

Level 10, Tower B, 821 Pacific Highway, Chatswood NSW 2067, Australia

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- (b) the attached financial statements and notes thereto comply with International Financial Reporting standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- (c) the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date;
- (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; and

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to Section 295(5) of the Corporations Act 2001.

Dated at Sydney on 22 August 2011



Greg McCann
Chairman



Chiao-Heng (Charles) Huang
Managing Director

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 statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration of Tel.Pacific Limited (the company) and the consolidated entity. The consolidated entity comprises 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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.

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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 consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 15 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.



PKF



Arthur Milner
Partner

Sydney, 22 August 2011