

# **TEL.PACIFIC LIMITED**

A.B.N. 99 073 079 268

**Financial Report  
For The Year Ended  
30 June 2007**

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# TEL.PACIFIC LIMITED

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**BOARD OF DIRECTORS**

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

**Non-Executive Chairman**

Appointed 2 April 2007

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

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

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

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

**Managing Director and Chief Executive Officer**

Appointed 28 February 1996

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

He has successfully steered Tel.Pacific from a start-up company to its current position as a strong participant 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.

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

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

Appointed 22 November 2004

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

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

**Ryan O'Hare**

**Non-Executive Director**

Appointed 2 April 2007

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

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

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

**Stephe Wilks B Sc, LLM**

**Non-Executive Director**

Appointed 2 April 2007

Stephe holds Bachelor of Science and Law degrees and a Master of Laws.

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) and Chief Operating Officer at Personal Broadband Australia and Consulting Director at NM Rothschild & Sons (2003 to 2005).

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

**CORPORATE GOVERNANCE STATEMENT**

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

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

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

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

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

**DIRECTORS' REPORT**

Your directors present their report on the company for the financial year ended 30 June 2007.

**Directors**

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

Greg McCann	Chairman (Non-executive) (appointed 3 April 2007)
Chiao-Heng (Charles) Huang	Managing Director, Chief Executive Officer
Barry Chan	Director, Chief Operating Officer
Bob Cheng	Director (Non-executive) (resigned 23 March 2007)
Cheng-Che Huang	Director (Non-executive) (resigned 3 March 2007)
Jeffrey Ma	Director, Chief Financial Officer, Company Secretary
Ryan O'Hare	Director (Non-executive) (appointed 3 April 2007)
Stephe Wilks	Director (Non-executive) (appointed 3 April 2007)

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

**Company Secretary**

Nick Geddes FCA, FCIS  
Appointed 22 May 2007

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

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

**Principal Activities**

The principal activities of the consolidated entity during the financial year were Internet and telephony services. Tel.Pacific Limited sold its Internet service provider business and its subsidiary, Acay Network Computing Pty Limited during the year. After the divestment of non-core businesses, the principal activity was the provision of pre-paid telephony products and services in Australia.

**Operating Results**

The net profit of the consolidated entity for the financial year after providing for income tax was \$3,081,602 (2006 - \$977,158), representing a significant increase of 215% over the previous year.

The net profit after income tax of the consolidated entity included the net profit from discontinued operations of \$815,044, which was attributable to the net profit on the sale of Internet service provider business amounting to \$1,540,153 and the net loss on the sale of Acay Network Computing Pty Limited amounting to \$725,109.

Excluding the above results from the discontinued operations, the net profit after tax of the consolidated entity for the year ended 30 June 2007 was \$2,266,558 (2006 - \$2,262,418), an increase of \$4,140 compared with the corresponding operations last year.

**Review of Operations**

During the financial year Tel.Pacific Limited divested its non-core businesses. The sale of its Internet services provider business to G-Node Networks Pty Limited was completed on 2 April 2007. The Internet service provider business had been operated by the purchaser since 1 December 2006 under an arrangement with the company. On 15 May 2007, the company also sold its former subsidiary, Acay Network Computing Pty Limited.

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### **Continuing Operations**

The pre-paid calling cards operations continue to demonstrate substantial organic growth in revenue, rising by 40% to \$36,373,304 (2006 - \$26,009,147). The gross margin was maintained at 27% as in the previous year despite strong market competition.

The efficiency ratio of operating costs to revenue has been maintained at 18%, as for last year.

The EBITDA of the continuing operations for the financial year ended 30 June 2007 amounted to \$4,011,233 (2006 - \$2,687,854), an increase of \$1,323,379 or 49% compared with the last year.

### **Discontinued Operations**

a) The net profit on the sale of its Internet service provider business amounts to \$1,540,153, comprised of the net operating loss of \$497,083 for the period from 1 July 2006 to 30 November 2006 (effective acquisition date of its Internet services provider business) and the net profit of \$2,037,236 on sale of its Internet service provider business.

Tel.Pacific Limited realised a net profit of \$1,540,153 on the sale of its Internet service provider business after allowing for all transaction expenses. This figure is included in the net profit on the sale of discontinued operations in the consolidated accounts.

b) The net loss on the sale of Acay Network Computing Pty Limited amounts to \$725,109, comprised of the net operating loss \$347,428 for the period from 1 July 2006 to 14 May 2007 (the date of sale of Acay Network Computing Pty Limited) and the net loss of \$377,681 on sale of Acay Network Computing Pty Limited.

Tel.Pacific Limited realised a net loss amounting to \$1,501,421 on the sale of Acay Network Computing Pty Limited after allowing for all transaction expenses. This figure is represented in the consolidated accounts by the following components:

Loss on the sale of discontinued operations	\$725,109
Loss incurred by the subsidiary and retained in equity	\$776,312

### **Significant Changes in State of Affairs**

On 2 April 2007 the Internet service provider business formerly owned and operated by the company was sold to G-Node Networks Pty Limited for \$2,750,000.

The company also sold all of the issued shares in a former subsidiary, Acay Network Computing Pty Limited on 15 May 2007 to the executive directors for a total consideration of \$20,000.

On 24 May 2007, the company issued 6.8 million shares to a number of employees including executive directors pursuant to an Executive Share Ownership Plan (ESOP), financed by the company. For accounting purposes, the share issue has been treated as option grant and the value of the options vested has been accounted for and included in the result for the period.

The company has converted to a public company on 1 June 2007 and the name of the company has changed from Tel.Pacific Pty Limited to Tel.Pacific Limited.

### **Significant Events After Balance Date**

On 25 May 2007 the company lodged a prospectus with the Australian Investments and Securities Commission in relation to the issue of 25,000,000 shares in the capital of the company at an issue price of \$0.20 per share. The company successfully listed on the Australian Securities Exchange (ASX) on 16 July 2007 and raised a total of \$5.0 million through its initial public offering.

### **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.

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### 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	-	750,000
Chiao-Heng (Charles) Huang	41,917,173	4,000,000
Barry Chan	6,994,706	2,000,000
Jeffrey Ma	2,401,073	2,000,000
Ryan O'Hare	-	500,000
Stephe Wilks	-	500,000

### Dividends

During the year, the following dividends were paid:

Dividend	Payment Date	Dividend per Share (1)	Total Dividend
Interim dividend for the year ended 30 June 2007	15/12/2006	0.17 cents franked to 90%	\$ 134,243
Final dividend for the year ended 30 June 2007	17/04/2007	0.77 cents franked to 90%	\$ 604,093

(1) The share capital of the company had been consolidated on the basis of 1 new share for each existing 1.716 shares, approved at the Annual General Meeting held on 20 April 2007. Dividend per share was calculated based on the consolidated number of shares on issue at the time of dividends were declared and paid.

### Employees

The consolidated entity employed 75 full time equivalent people as 30 June 2007 (30 June 2006: 111).

### Share Options

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

As at the date of this report, there were 10.75 million unissued ordinary shares under options. Refer to Note 21 (c) to the financial statements for further details of the options outstanding.

The earliest date the options can be exercised is 23 November 2007.

**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 directors were as follows:

<b>Directors</b>	<b>Board Meetings</b>	<b>Audit and Risk Committee</b>	<b>Remuneration and Nomination Committee</b>
Greg McCann	6	1	1
Chiao-Heng (Charles) Huang	12	-	1
Barry Chan	12	-	-
Bob Cheng	1	-	-
Cheng-Che Huang	1	-	-
Jeffrey Ma	12	-	-
Ryan O'Hare	6	1	1
Stephe Wilks	6	1	1

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

Members acting on the committee of the Board were:

**Audit and Risk Committee**

Stephe Wilks (Chairman)  
 Greg McCann  
 Ryan O'Hare

**Remuneration and Nomination Committee**

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

**Indemnification and Insurance of Directors and Officers**

The company has entered into a directors' & officers' insurance contract on 17 May 2007 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 \$26,162.

**Remuneration Report**

**Remuneration Policy**

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

**Non-executive Director Remuneration**

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

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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.

The remuneration of non-executive directors for the financial year ended 30 June 2007 is detailed below.

### **Senior Manager and Executive Director Remuneration**

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

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

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

The remuneration of non-executive directors and key executives for the financial year ended 30 June 2007 is detailed below.

### **Remuneration of Directors**

The following tables set out the remuneration received by the directors of the company during the financial years ending 30 June 2007 and 30 June 2006.

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

2006	Short Term Benefits		Post Employment	Equity Based	Total
	Salary and Fees	Non-Cash Benefits	Superannuation	Shares (2)	
	\$	\$	\$	\$	\$
Chiao-Heng (Charles) Huang	140,000	-	12,600	11,829	164,429
Barry Chan	77,239	16,433	9,000	15,000	117,672
Bob Cheng	14,560	-	1,310	-	15,870
Jeffrey Ma	102,359	6,913	12,060	15,000	136,332
	<b>334,158</b>	<b>23,346</b>	<b>34,970</b>	<b>41,829</b>	<b>434,303</b>

- (1) This represents the value of options that have been issued to the named directors or their nominees under the Executive Share Ownership Plan and Employee Option Plan. The value of these options has been determined in accordance with the Australian Accounting Standards AASB 2 Share-based Payment.
- (2) This represents the value of shares granted to the named directors or their nominees in recognition of their effort and contributions during the year. The value of these shares has been determined in accordance with the Australian Accounting Standards AASB 2 Share-based Payment.
- (3) Included an amount of \$5,000 paid to Executive Computing Pty Limited, for procuring the services of Greg McCann to act as a Director.
- (4) Director fees have been paid to High Expectations Pty Limited, for procuring the services of Stephe Wilks to act as a Director. High Expectations Pty Limited is responsible for Stephe Wilks' employment expenses, including statutory superannuation.
- (5) Appointed as director on 3 April 2007
- (6) Resigned as director on 23 March 2007
- (7) Resigned as director on 2 March 2007

**Details of Executives**

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

Executive	Position
Huy Nguyen	National Sales Manager
Charles Hsieh	National Sales Manager

The following tables set out the remunerations received by the executives of the company during the financial years ending 30 June 2007 and 30 June 2006.

2007	Short Term Benefits		Post Employment	Equity Based	Total
	Salary and Fees	Non-Cash Benefits	Superannuation	Options (1)	
	\$	\$	\$	\$	\$
Huy Nguyen	111,761	-	10,108	28,327	150,196
Charles Hsieh	79,816	23,192	8,725	8,901	120,634
	<u>191,577</u>	<u>23,192</u>	<u>18,833</u>	<u>37,228</u>	<u>270,830</u>

2006	Short Term Benefits		Post Employment	Equity Based	Total
	Salary and Fees	Non-Cash Benefits	Superannuation	Shares (2)	
	\$	\$	\$	\$	\$
Huy Nguyen	47,544	24,591	6,477	10,000	88,612
Charles Hsieh	40,089	24,837	5,495	-	70,421
	<u>87,633</u>	<u>49,428</u>	<u>11,972</u>	<u>10,000</u>	<u>159,033</u>

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

**Proceedings on Behalf of Company**

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

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

**Auditor's Independence Declaration**

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

**Non-Audit Services**

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

PKF received or are due to receive \$36,020 for the provision of non-audit services.

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



Stephe Wilks  
Director

Dated this 5 September 2007



Chiao-Heng (Charles) Huang  
Managing Director

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**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001****TO THE DIRECTORS OF TEL.PACIFIC LIMITED:**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007 there have been:

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

*PKF*

PKF

**Arthur Milner  
Partner****Sydney, 5<sup>th</sup> September 2007**

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# TEL.PACIFIC LIMITED

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue	2	36,373,304	26,009,147	36,373,304	26,009,147
Cost of sales		<u>(26,561,227)</u>	<u>(18,893,848)</u>	<u>(26,561,227)</u>	<u>(18,893,848)</u>
Gross profit		9,812,077	7,115,299	9,812,077	7,115,299
Other income	2	<u>630,093</u>	<u>211,574</u>	<u>682,318</u>	<u>259,502</u>
		10,442,170	7,326,873	10,494,395	7,374,801
Operating expenses	3	(2,425,561)	(2,294,852)	(3,602,042)	(2,604,293)
Employee benefits expense		<u>(4,005,376)</u>	<u>(2,344,167)</u>	<u>(4,005,376)</u>	<u>(2,344,167)</u>
Earnings before interest, taxation, depreciation and amortisation (EBITDA)		4,011,233	2,687,854	2,886,977	2,426,341
Depreciation and amortisation	4	<u>(620,775)</u>	<u>(378,725)</u>	<u>(620,775)</u>	<u>(378,725)</u>
Earning before interest and taxation (EBIT)		3,390,458	2,309,129	2,266,202	2,047,616
Finance costs		<u>(32,591)</u>	<u>(39,758)</u>	<u>(32,591)</u>	<u>(39,758)</u>
Profit before income tax		3,357,867	2,269,371	2,233,611	2,007,858
Income tax expense	5	<u>(1,091,309)</u>	<u>(6,953)</u>	<u>(739,657)</u>	<u>(6,953)</u>
Net profit from continuing operations after tax		2,266,558	2,262,418	1,493,954	2,000,905
Net profit/(loss) from discontinued operations after tax	28	815,044	(1,285,260)	1,540,153	(1,008,554)
Net profit after tax (NPAT) attributable to members of Tel.Pacific Limited		<u><u>3,081,602</u></u>	<u><u>977,158</u></u>	<u><u>3,034,107</u></u>	<u><u>992,351</u></u>
Earnings per share (cents per share)					
Continuing operations basic earnings per share	6	2.87	2.93		
Continuing operations diluted earnings per share	6	2.87	2.93		
Discontinued operations basic earnings per share	6	1.03	(1.66)		
Discontinued operations diluted earnings per share	6	1.03	(1.66)		
Dividend per share	7	0.94	0.48		

The accompanying notes form part of these financial statements.

TEL.PACIFIC LIMITED

BALANCE SHEET  
AS AT 30 JUNE 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	9	10,851,188	3,465,300	10,808,401	3,230,008
Trade and other receivables	10	4,260,713	2,736,123	4,316,693	3,771,455
Inventories	11	162,747	450,392	162,747	89,363
Other current assets	12	894,283	437,190	894,283	401,534
<b>Total Current Assets</b>		<u>16,168,931</u>	<u>7,089,005</u>	<u>16,182,124</u>	<u>7,492,360</u>
<b>Non-Current Assets</b>					
Deferred tax asset	13	270,984	472,769	270,984	472,769
Financial assets	14	100	100	2,212	52,312
Property, plant and equipment	16	2,124,780	2,989,084	2,124,780	2,584,496
Intangible assets	17	97,548	118,787	97,548	118,022
<b>Total Non-Current Assets</b>		<u>2,493,412</u>	<u>3,580,740</u>	<u>2,495,524</u>	<u>3,227,599</u>
<b>TOTAL ASSETS</b>		<u>18,662,343</u>	<u>10,669,745</u>	<u>18,677,648</u>	<u>10,719,959</u>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	18	14,553,518	9,010,083	14,553,518	9,004,585
Short term borrowings	19	-	258,392	-	258,392
Income tax payable		526,999	150,037	526,999	150,037
Short term provisions	20	336,092	374,061	336,092	374,061
<b>Total Current Liabilities</b>		<u>15,416,609</u>	<u>9,792,573</u>	<u>15,416,609</u>	<u>9,787,075</u>
<b>Non-Current Liabilities</b>					
Long term borrowings	19	-	293,617	-	293,617
Long term provisions	20	79,225	74,999	79,225	74,999
<b>Total Non-Current Liabilities</b>		<u>79,225</u>	<u>368,616</u>	<u>79,225</u>	<u>368,616</u>
<b>TOTAL LIABILITIES</b>		<u>15,495,834</u>	<u>10,161,189</u>	<u>15,495,834</u>	<u>10,155,691</u>
<b>NET ASSETS</b>		<u>3,166,509</u>	<u>508,556</u>	<u>3,181,814</u>	<u>564,268</u>
<b>EQUITY</b>					
Issued capital	21	4,200,982	4,200,982	4,200,982	4,200,982
Reserves	22	310,298	(4,389)	321,775	-
Accumulated losses		(1,344,771)	(3,688,037)	(1,340,943)	(3,636,714)
<b>TOTAL EQUITY</b>		<u>3,166,509</u>	<u>508,556</u>	<u>3,181,814</u>	<u>564,268</u>

The accompanying notes form part of these financial statements.

**TEL.PACIFIC LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2007**

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>ISSUED CAPITAL</b>					
Balance at start of year		4,200,982	4,126,652	4,200,982	4,126,652
Issuing new shares		-	74,330	-	74,330
Balance at end of year	21	<u>4,200,982</u>	<u>4,200,982</u>	<u>4,200,982</u>	<u>4,200,982</u>
<b>RESERVES</b>					
Balance at start of year		(4,389)	(4,389)	-	-
Employee equity benefits reserve		321,775	-	321,775	-
Exchange differences on translating foreign operations		(7,088)	-	-	-
Balance at end of year	22	<u>310,298</u>	<u>(4,389)</u>	<u>321,775</u>	<u>-</u>
<b>ACCUMULATED LOSSES</b>					
Balance at start of year		(3,688,037)	(4,293,478)	(3,636,714)	(4,257,348)
Profit for the year		3,081,602	977,158	3,034,107	992,351
Dividend paid during the year	7	<u>(738,336)</u>	<u>(371,717)</u>	<u>(738,336)</u>	<u>(371,717)</u>
Balance at end of year		<u>(1,344,771)</u>	<u>(3,688,037)</u>	<u>(1,340,943)</u>	<u>(3,636,714)</u>
<b>TOTAL EQUITY</b>		<u>3,166,509</u>	<u>508,556</u>	<u>3,181,814</u>	<u>564,268</u>

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**TEL.PACIFIC LIMITED**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2007**

	Note	Consolidated		Company	
		2007 \$	2006	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		48,050,704	39,669,509	47,318,503	38,415,607
Payments to suppliers and employees		(43,601,889)	(37,284,047)	(42,670,015)	(36,563,853)
Interest received		373,772	167,196	366,604	164,752
Finance costs		(33,288)	(39,758)	(33,288)	(39,758)
Income tax paid		(155,620)	(119,209)	(155,620)	(119,209)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	9	<u>4,633,679</u>	<u>2,393,691</u>	<u>4,826,184</u>	<u>1,857,539</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant & equipment		(606,221)	(1,218,697)	(606,221)	(787,590)
Purchase of investments		-	(102)	-	(102)
Proceeds from disposal of subsidiary		20,000	-	20,000	-
Proceeds from disposal of equipment		975	-	975	-
Loan to other party		(590,000)	-	(590,000)	-
Receipts from the repayment of loans from other party		589,900	-	589,900	-
Proceeds from sale of data business		2,500,000	-	2,500,000	-
Development costs		(73,600)	(144,410)	(73,600)	(144,410)
<b>NET CASH PROVIDED/(USED) IN INVESTING ACTIVITIES</b>		<u>1,841,054</u>	<u>(1,363,209)</u>	<u>1,841,054</u>	<u>(932,102)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings		-	201,803	-	201,803
Proceeds from initial public offering		2,201,500	-	2,201,500	-
Repayment of borrowings		(552,009)	(218,869)	(552,009)	(218,869)
Dividends paid		(738,336)	(367,518)	(738,336)	(367,518)
<b>NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES</b>		<u>911,155</u>	<u>(384,584)</u>	<u>911,155</u>	<u>(384,584)</u>
Net increase in cash held		7,385,888	645,898	7,578,393	540,853
Cash held at the beginning of the financial year		3,465,300	2,819,402	3,230,008	2,689,155
<b>CASH AT THE END OF FINANCIAL YEAR</b>	9	<u><u>10,851,188</u></u>	<u><u>3,465,300</u></u>	<u><u>10,808,401</u></u>	<u><u>3,230,008</u></u>

The accompanying notes form part of these financial statements.

## TEL.PACIFIC LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

#### **Basis of Preparation**

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

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

Since the end of the financial year, certain new Accounting Standards have been published and certain existing Accounting Standards have been amended. These new standards and amendments will be applicable for periods commencing 1 July 2007 and 1 January 2008. The consolidated entity's assessment is that there will be no material impact of these new standards and amendments on the accounting policies currently applied.

The financial report of Tel.Pacific Limited and its controlled entities for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the Tel.Pacific Board of Directors on 5 September 2007.

#### **Accounting Policies**

##### **(a) Principles of Consolidation**

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

A list of controlled entities is contained in Note 15 to the financial statements. All controlled entities have a June year end.

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

## TEL.PACIFIC LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

#### **(b) Income Tax**

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

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

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

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

Tel.Pacific Limited is responsible for recognising the current and deferred tax assets and liabilities for the consolidated group.

#### **(c) Inventories**

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

#### **(d) 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 not been discounted to their present values in determining recoverable amounts.

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

## TEL.PACIFIC LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

#### Depreciation

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

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

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

#### (e) 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.

#### (f) Financial Instruments

##### Recognition

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

##### Financial Assets at Fair Value through Profit and Loss

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

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

## TEL.PACIFIC LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

#### **Loans and Receivables**

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

#### **Held to Maturity Investments**

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

#### **Available for Sale Financial Assets**

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

#### **Financial Liabilities**

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

#### **Impairment**

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

#### **(g) Impairment of Assets**

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

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

#### **(h) Intangibles**

##### **Goodwill**

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

### **Research and Development**

Expenditure during the research phase of the project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies 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.

### **(i) Foreign Currency Transactions and Balances**

#### **Functional and Presentational Currency**

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

#### **Transactions and Balances**

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

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

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

#### **Group Companies**

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

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

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

### **(j) Employee Benefits**

#### **Annual Leave/Long Service Leave**

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

## TEL.PACIFIC LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

#### **Superannuation**

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

#### **Share-based Payments**

The consolidated entity operates employee share schemes. The fair value of shares issued is recognised as an employee benefits expense.

#### **(k) 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 consolidated benefits will result and that outflow can be reliably measured.

#### **(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. Bank borrowings are shown within short term borrowings in current liabilities on the balance sheet.

#### **(m) Revenue**

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

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

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

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

#### **(n) 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.

#### **(o) Earnings per Share**

Basic earnings per share is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares.

## TEL.PACIFIC LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

#### **(p) Comparatives**

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

The amount of unbilled receivables included in Current Assets in Note 10 was previously classified as consignment stock within Current Assets. The directors believe that the reclassification better reflects the nature of the assets.

#### **(q) Initial Accounting Estimates and Judgments**

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

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>NOTE 2: REVENUE</b>				
Operating Activities				
- Voice Revenue	36,286,308	25,968,158	36,286,308	25,968,158
- VoIP Revenue	37,408	33,962	37,408	33,962
- Resale Revenue	49,588	7,027	49,588	7,027
	<u>36,373,304</u>	<u>26,009,147</u>	<u>36,373,304</u>	<u>26,009,147</u>
Other Income				
- Interest Received	381,919	175,132	376,574	175,070
- Resale Commission	68,158	-	68,158	-
- Sundry Income	157,032	34,781	214,602	82,771
- Rent Received	-	1,661	-	1,661
- Foreign Exchange Gain	22,984	-	22,984	-
	<u>630,093</u>	<u>211,574</u>	<u>682,318</u>	<u>259,502</u>
<b>NOTE 3: OPERATING EXPENSES</b>				
Occupancy Expense	285,044	202,766	284,183	191,908
Advertising and promotion Expense	634,804	782,620	634,804	782,620
Communication Expense	182,787	147,541	182,787	147,541
Professional Fees	233,973	125,348	232,496	123,651
Bank and Merchant Fees	214,810	122,766	214,660	122,596
Contract Staff	92,433	207,917	92,433	207,917
Travel Expense	271,415	250,180	268,121	249,293
Bad and Doubtful Debts Expense	148,145	66,001	148,145	66,001
Subsidiary Debt Forgiveness	-	-	1,146,299	-
Other Expenses	362,150	389,713	398,114	712,766
	<u>2,425,561</u>	<u>2,294,852</u>	<u>3,602,042</u>	<u>2,604,293</u>
<b>NOTE 4: DEPRECIATION AND AMORTISATION</b>				
Depreciation of Non-current Assets - Continuing Operations	561,365	1,012,859	561,365	910,615
Amortisation of Research and Development	59,410	27,240	59,410	27,240
Total Depreciation and Amortisation	<u>620,775</u>	<u>1,040,099</u>	<u>620,775</u>	<u>937,855</u>
Depreciation of Non-current Assets - Discontinued Operations	<u>188,214</u>	<u>330,687</u>	<u>142,059</u>	<u>279,566</u>
<b>NOTE 5: INCOME TAX EXPENSE</b>				
<b>The major components of income tax expense are:</b>				
Current tax expense	534,371	150,037	534,371	150,037
Deferred tax resulting from the origination and reversal of temporary differences	201,785	(143,084)	201,785	(143,084)
Over provision of tax in prior years	(1,789)	-	(1,789)	-
	<u>734,367</u>	<u>6,953</u>	<u>734,367</u>	<u>6,953</u>
Income tax/(benefit) attributable to				
Continuing operations	1,091,309	6,953	739,657	6,953
Discontinued operations	(356,942)	-	(5,290)	-
	<u>734,367</u>	<u>6,953</u>	<u>734,367</u>	<u>6,953</u>

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
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 follows:				
Prima facie tax expense on profit from ordinary activities is 30% (2006 - 30%)				
- Consolidated entity	1,144,791	295,233	-	-
- Parent entity	-	-	1,130,542	299,791
- Other members of the income tax consolidated group net of intercompany transactions	-	-	14,249	(4,558)
Non-allowable items	105,086	93,463	105,086	93,463
Non taxable gain	(465,749)	-	(465,749)	-
Over provision of tax in prior years	(1,789)	-	(1,789)	-
Recoupment of prior year tax losses not previously brought to account	(47,972)	(238,659)	(47,972)	(238,659)
Deferred tax asset/(not previously recognised now brought to account)	-	(143,084)	-	(143,084)
Income tax expense attributable to profit from ordinary activities	<u>734,367</u>	<u>6,953</u>	<u>734,367</u>	<u>6,953</u>

The deferred tax asset will only be obtained if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (c) no changes in tax legislation adversely affect the entity in realising the benefit.

Deferred tax asset/(deferred tax liability)

Deferred tax items recognised in income statement

Property, plant and equipment	(53,623)	(23,714)	(53,623)	(23,714)
Provision for employee entitlements	79,938	61,482	79,938	61,482
Allowance for doubtful debts	56,020	81,413	56,020	81,413
Provision for lease incentive	42,749	71,249	42,749	71,249
Trade and other payables	89,644	38,627	89,644	38,627
Income tax losses	-	233,585	-	233,585
Other	56,256	10,127	56,256	10,127
Deferred tax asset	<u>270,984</u>	<u>472,769</u>	<u>270,984</u>	<u>472,769</u>

Deferred tax asset arising from tax losses is not brought to account at balance date as realisation of the benefit is not regarded as probable.

	<u>-</u>	<u>45,126</u>	<u>-</u>	<u>45,126</u>
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**Tax Consolidation**

Effective 1 July 2003, for the purposes of income taxation, Tel.Pacific Limited and its 100% owned 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.

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

**Consolidated**  
**2007**                      **2006**  
 \$                              \$

**NOTE 6: EARNINGS PER SHARE (EPS)**

Continuing operations			
Basic earnings per share (cents per share)		2.87	2.93
Diluted earnings per share (cents per share)		2.87	2.93
Discontinued operations			
Basic earnings per share (cents per share)		1.03	(1.66)
Diluted earnings per share (cents per share)		1.03	(1.66)
Net earnings used in the calculation of continuing operations basic and diluted EPS		2,266,558	2,262,418
Net earnings used in the calculation of discontinued operations basic and diluted EPS		815,044	(1,285,260)
		<b>Number (1)</b>	<b>Number</b>
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted EPS (1)		78,889,315	77,336,393

(1) The share capital of the company had been consolidated on the basis of 1 new share for each existing 1.716 shares, approved at the Annual General Meeting held on 20 April 2007.

The number of ordinary shares does not reflect the allotment and issue of 25,000,000 ordinary shares on 5 July 2007 through the company's initial public offering, which occurred between the balance sheet date and the date of completion of these financial statements.

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 2007.

<b>Consolidated</b>		<b>Company</b>	
<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
\$	\$	\$	\$

**NOTE 7: DIVIDENDS**

Dividend on ordinary shares declared and paid during the year:

Interim 90% franked at 0.17 cents per share (1) (2006 - Nil)	134,243	-	134,243	-
Final 90% franked at 0.77 cents per share (2006 - unfranked at 0.48 cents per share)	604,093	371,717	604,093	371,717
	<u>738,336</u>	<u>371,717</u>	<u>738,336</u>	<u>371,717</u>

(1) The share capital of the company had been consolidated on the basis of 1 new share for each existing 1.716 shares, approved at the Annual General Meeting held on 20 April 2007. Dividend per share was calculated based on the consolidated number of shares on issue at the time of dividends were declared and paid.

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

**Consolidated**  
**2007**                      **2006**  
**\$**                              **\$**

**Franking Credit Balance**

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% (2006 - 30%)	267,456	119,208
- Franking credits that will arise from the payment of income tax payable as at the end of the financial year	534,371	148,248
- Franking debits that will arise from the payment of dividends as at the end of the financial year	(284,786)	-
- Franking credits that will arise from the receipt of dividends recognised as receivable as at the reporting date	-	-
- Franking credits that the entity may be prevented from distributing in the subsequent financial year	-	-
The amount of franking credits available for future reporting periods:	517,041	267,456
- 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	-	-
	517,041	267,456

The tax rate at which paid dividends have been franked is 30% (2006 - 30%).

<b>Consolidated</b>		<b>Company</b>	
<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**NOTE 8: AUDITORS REMUNERATION**

Auditing the Financial Reports	59,000	37,000	59,000	37,000
Other Services	36,020	54,860	36,020	54,860
	95,020	91,860	95,020	91,860

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$

**NOTE 9: CASH AND CASH EQUIVALENTS**

**(a) Cash Balance**

Cash at Bank	10,728,647	2,889,000	10,685,860	2,762,215
Term Deposits	122,541	576,300	122,541	467,793
	<u>10,851,188</u>	<u>3,465,300</u>	<u>10,808,401</u>	<u>3,230,008</u>

At the end of the financial year \$122,541 (2006 - \$576,300) was held in term deposits as security for bank guarantee.

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

Profit after income tax	3,081,602	977,158	3,034,107	992,351
Non-cash flows in profit				
Depreciation expense	808,989	709,412	762,834	658,290
Share based payment	321,775	74,330	321,775	74,330
Recognition of deferred tax asset	201,785	(143,084)	201,785	(143,084)
Gain on asset disposals & discontinued business	(2,014,420)	-	(2,323,517)	-
Changes in assets and liabilities				
(Increase)/Decrease in prepayments	314,905	134,043	279,249	(203,485)
(Increase)/Decrease in trade & other debtors	(1,759,024)	838,508	(1,606,108)	1,230,496
Increase/(Decrease) in trade & other creditors	3,341,935	(351,411)	2,796,765	(250,680)
Increase/(Decrease) in other provisions	343,219	154,735	343,219	154,735
Movement in amounts due from subsidiaries	-	-	1,016,075	(655,414)
Movement in foreign currency translation reserve	(7,087)	-	-	-
	<u>4,633,679</u>	<u>2,393,691</u>	<u>4,826,184</u>	<u>1,857,539</u>

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

Share Issue	<u>1,088,000</u>	<u>74,330</u>	<u>1,088,000</u>	<u>74,330</u>
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On 24 May 2007, the company issued 6.8 million shares at \$0.16 per share, amounting to a total of \$1,088,000, to a number of employees including executive directors pursuant to an Executive Share Ownership Plan, financed by the company. For accounting purposes, the share issue has been treated as option granted and the value of the options vested has been accounted for and included in the result for the period.

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

Credit Facility	105,696	900,000	105,696	900,000
Amount Used	(46,782)	(618,748)	(46,782)	(618,748)
Unused Credit Facility	<u>58,914</u>	<u>281,252</u>	<u>58,914</u>	<u>281,252</u>

**(e) Loan Facilities**

Loan Facility	-	201,803	-	201,803
Amount Utilised	-	(201,803)	-	(201,803)
Unused Loan Facility	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

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

	<b>Consolidated</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>NOTE 10: TRADE AND OTHER RECEIVABLES</b>				
Current:				
Trade Debtors	2,180,539	1,410,764	2,180,539	1,407,590
Less: Allowance for Doubtful Debts	(186,733)	(248,334)	(186,733)	(248,334)
Unbilled Receivables	2,191,925	1,454,170	2,191,925	1,454,170
Other Debtors	74,982	119,523	74,564	85,557
Amounts Due from Subsidiaries	-	-	56,398	1,072,472
	<u>4,260,713</u>	<u>2,736,123</u>	<u>4,316,693</u>	<u>3,771,455</u>
<b>NOTE 11: INVENTORIES</b>				
Current:				
Inventories	162,747	473,436	162,747	89,363
Less: Allowance for Obsolete Stock	-	(23,044)	-	-
	<u>162,747</u>	<u>450,392</u>	<u>162,747</u>	<u>89,363</u>
<b>NOTE 12: OTHER ASSETS</b>				
Current:				
Deferred Commission Costs	550,667	-	550,667	-
Prepayments	336,704	427,648	336,704	391,992
Security Deposit	6,912	9,542	6,912	9,542
	<u>894,283</u>	<u>437,190</u>	<u>894,283</u>	<u>401,534</u>
<b>NOTE 13: DEFERRED TAX ASSET (See Note 5)</b>				
Current:				
Timing Difference	270,984	239,184	270,984	239,184
Tax Losses	-	233,585	-	233,585
	<u>270,984</u>	<u>472,769</u>	<u>270,984</u>	<u>472,769</u>
<b>NOTE 14: FINANCIAL ASSETS</b>				
Investment	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Unlisted Controlled Entities (Note 15)				
Investment in Subsidiaries at Cost	-	-	2,112	1,580,574
Less: Provision for Diminution	-	-	-	(1,528,362)
	<u>-</u>	<u>-</u>	<u>2,112</u>	<u>52,212</u>

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

**NOTE 15: CONTROLLED ENTITIES**

	Country of Incorporation	Holding		Investment	
		2007 %	2006 %	2007 \$	2006 \$
Parent Entity					
Tel.Pacific Limited	Australia				
Controlled Entities - Consolidated Entity					
Interest at Cost					
Acay Network Computing Pty Limited (1)	Australia	-	100%	-	1,578,462
Rivernet Pty Limited	Australia	100%	100%	12	12
Hello Card Pty Limited	Australia	100%	100%	100	100
Tel.Pacific (Hong Kong) Limited	Hong Kong	100%	100%	2,000	2,000
				2,112	1,580,574
Provision for Diminution				-	(1,528,362)
				2,112	52,212

(1) Acay Network Computing Pty Limited was sold and ceased as a controlled entity on the 15th May 2007.

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$

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

Motor Vehicles	53,833	43,637	53,833	43,637
Less: Accumulated Depreciation	(27,858)	(20,520)	(27,858)	(20,520)
	25,975	23,117	25,975	23,117
Network Equipment & Software	2,923,359	4,495,192	2,923,359	4,109,554
Less: Accumulated Depreciation	(1,898,891)	(3,114,803)	(1,898,891)	(2,731,251)
	1,024,468	1,380,389	1,024,468	1,378,303
Office Equipment & Software	926,167	1,381,875	926,167	882,727
Less: Accumulated Depreciation	(700,422)	(976,880)	(700,422)	(537,175)
	225,745	404,995	225,745	345,552
Office Fittings & Furniture	626,618	951,119	626,618	533,911
Less: Accumulated Depreciation	(264,445)	(267,864)	(264,445)	(193,715)
	362,173	683,255	362,173	340,196
Real Estate Properties	519,146	519,146	519,146	519,146
Less: Accumulated Depreciation	(32,727)	(21,818)	(32,727)	(21,818)
	486,419	497,328	486,419	497,328
	2,124,780	2,989,084	2,124,780	2,584,496

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

**Movement in Carrying Amount**

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

**Company**

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

**2006 Consolidated**

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

**Company**

Balance at the beginning of the year	29,663	1,238,669	262,635	388,753	508,237	2,427,957
Additions	-	559,396	210,257	17,937	-	787,590
Depreciation Expense	(6,546)	(419,762)	(127,340)	(66,494)	(10,909)	(631,051)
Balance at the end of the year	<u>23,117</u>	<u>1,378,303</u>	<u>345,552</u>	<u>340,196</u>	<u>497,328</u>	<u>2,584,496</u>

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

	<b>Consolidated</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	\$	\$	\$	\$
<b>NOTE 17: INTANGIBLE ASSETS</b>				
Goodwill				
Cost	-	1,557,733	-	-
Accumulated impaired losses	-	(1,557,733)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Company Formation Expenses	850	1,615	850	850
Patent	2	2	2	2
	<u>852</u>	<u>1,617</u>	<u>852</u>	<u>852</u>
Research and Development	160,330	144,410	160,330	144,410
Less: Accumulated Amortisation	(63,634)	(27,240)	(63,634)	(27,240)
	<u>96,696</u>	<u>117,170</u>	<u>96,696</u>	<u>117,170</u>
	<u><u>97,548</u></u>	<u><u>118,787</u></u>	<u><u>97,548</u></u>	<u><u>118,022</u></u>
<b>Movement in Carrying Amount</b>				
<b>Research and Development</b>				
Balance at the beginning of the year	117,170	-	117,170	-
Additions	73,600	144,410	73,600	144,410
Disposal	(34,664)	-	(34,664)	-
Depreciation Expense	(59,410)	(27,240)	(59,410)	(27,240)
	<u>96,696</u>	<u>117,170</u>	<u>96,696</u>	<u>117,170</u>
Balance at the end of the year	<u><u>96,696</u></u>	<u><u>117,170</u></u>	<u><u>96,696</u></u>	<u><u>117,170</u></u>
<b>NOTE 18: TRADE AND OTHER PAYABLES</b>				
<b>Current:</b>				
Creditors	2,713,756	2,878,900	2,713,756	2,889,344
Sundry Creditors	749,101	329,728	749,101	291,227
Deposit Held	5,000	69,859	5,000	69,859
Goods and Services Tax Payable	440,914	218,344	440,914	240,903
IPO Trust Account (1)	2,201,500	-	2,201,500	-
Unearned Revenue	8,443,247	5,513,252	8,443,247	5,513,252
	<u>14,553,518</u>	<u>9,010,083</u>	<u>14,553,518</u>	<u>9,004,585</u>

(1) The IPO trust account represents application monies received in relation to the company's Initial Public Offering (IPO). Refer to Note 29 for details.

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>NOTE 19: BORROWINGS</b>				
<b>Short Term Borrowings</b>				
Bank Loan	-	251,803	-	251,803
Motor Vehicle Lease	-	6,589	-	6,589
	<u>-</u>	<u>258,392</u>	<u>-</u>	<u>258,392</u>

Bank loan USD 150,000 was secured against (a) personal guarantees provided by Chiao-Heng (Charles) Huang and Barry Chan; (b) USD promissory note drawn jointly by Chiao-Heng (Charles) Huang and Cheng Che Huang and (c) fixed and floating charges over company assets.

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

Bank loans had subsequently been repaid and related fixed and floating charges released.

<b>Long Term Borrowings</b>				
Mortgage Loan	-	293,617	-	293,617
Motor Vehicle Lease	-	-	-	-
	<u>-</u>	<u>293,617</u>	<u>-</u>	<u>293,617</u>

Mortgage loan \$293,617 was secured against the company real estate properties at Unit 213 and Car Park Lot 49, 83 Queensbridge Street, Melbourne, Victoria. Mortgage loan had subsequently been repaid and related securities discharged.

**NOTE 20: PROVISIONS**

<b>Short Term Provisions</b>				
Fringe Benefit Tax Provision	6,362	6,625	6,362	6,625
Leave Entitlement Provision	187,233	129,941	187,233	129,941
Lease Incentive Provision	142,497	237,495	142,497	237,495
	<u>336,092</u>	<u>374,061</u>	<u>336,092</u>	<u>374,061</u>

<b>Long Term Provisions</b>				
Leave Entitlement Provision	79,225	74,999	79,225	74,999

**Movements in Provisions**

(a) Leave Entitlement Provision (Short Term)

Opening balance	129,941	113,880	129,941	113,880
- additional provisions	57,292	16,061	57,292	16,061
Closing balance	<u>187,233</u>	<u>129,941</u>	<u>187,233</u>	<u>129,941</u>

(b) Lease Incentive Provision

Opening balance	237,495	160,660	237,495	160,660
- additional provisions	-	100,285	-	100,285
- amount used	(94,998)	(23,450)	(94,998)	(23,450)
Closing balance	<u>142,497</u>	<u>237,495</u>	<u>142,497</u>	<u>237,495</u>

(c) Leave Entitlement Provision (Long Term)

Opening balance	74,999	19,729	74,999	19,729
- additional provisions	4,226	55,270	4,226	55,270
Closing balance	<u>79,225</u>	<u>74,999</u>	<u>79,225</u>	<u>74,999</u>

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

**NOTE 21: ISSUED CAPITAL**

	<b>Consolidated and Company</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Number</b>	<b>\$</b>	<b>Number</b>	<b>\$</b>
<b>(a) Ordinary Shares</b>				
Issued and Fully Paid	78,200,000	4,200,982	134,243,000	4,200,982
Issued and Unpaid (1)	6,800,000	-	-	-
	<u>85,000,000</u>	<u>4,200,982</u>	<u>134,243,000</u>	<u>4,200,982</u>
<b>(b) Movements in Ordinary Shares on Issue</b>				
Balance at the beginning of the year	134,243,000	4,200,982	132,756,405	4,126,652
Adjustment for consolidation of ordinary shares on issue on the basis of 1 new share for each existing 1.716 shares pursuant to the resolution approved at the Annual General Meeting on 20 April 2007	(56,043,000)	-	-	-
Issue of ordinary shares on 24 May 2007 under Executive Share Ownership Plan (ESOP) (1)	6,800,000	-	-	-
Issue of ordinary shares on 30 June 2006 under employee share based payment scheme	-	-	1,486,595	74,330
Balance at the end of the year	<u>85,000,000</u>	<u>4,200,982</u>	<u>134,243,000</u>	<u>4,200,982</u>

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

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

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

**(c) Share Options**

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 2007 are:

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

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>NOTE 22: RESERVES</b>				
<b>(a) Foreign Currency Translation Reserve</b>				
The foreign currency translation reserve records exchange differences arising on translation of foreign controlled entities.				
Balance at the beginning of the year	(4,389)	-	-	-
Loss on translation of overseas controlled entities	(7,088)	(4,389)	-	-
Balance at the end of the year	<u>(11,477)</u>	<u>(4,389)</u>	<u>-</u>	<u>-</u>
<b>(b) Employee Equity Benefits Reserve</b>				
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	-	-	-	-
Share-based payments	321,775	-	321,775	-
Balance at the end of the year	<u>321,775</u>	<u>-</u>	<u>321,775</u>	<u>-</u>
<b>Total Reserves</b>	<u>310,298</u>	<u>(4,389)</u>	<u>321,775</u>	<u>-</u>

**NOTE 23: CAPITAL AND LEASING COMMITMENTS**

**(a) Finance Lease Commitments**

- not later than 1 year	-	7,068	-	7,068
- later than 1 year but not later than 5 years	-	-	-	-
Minimum Lease Payments	-	7,068	-	7,068
Less: Future Finance Charges	-	(479)	-	(479)
Total Lease Commitments	<u>-</u>	<u>6,589</u>	<u>-</u>	<u>6,589</u>

**(b) Operating Lease Commitments**

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

- not later than 1 year	424,822	704,377	424,822	386,836
- later than 1 year but not later than 5 years	284,037	1,372,314	284,037	581,768
Total Lease Commitments	<u>708,859</u>	<u>2,076,691</u>	<u>708,859</u>	<u>968,604</u>

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

**(c) Capital Expenditure Commitments**

Capital expenditure contracted for plant and equipment

- not later than 1 year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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**NOTE 24: DIRECTORS AND EXECUTIVES DISCLOSURES**

**(a) Key Management Personnel**

*Director*

Greg McCann	Chairman (Non-executive) (appointed 3 April 2007)
Chiao-Heng (Charles) Huang	Managing Director, Chief Executive Officer
Barry Chan	Director, Chief Operating Officer
Bob Cheng	Director (Non-executive) (resigned 23 March 2007)
Cheng-Che Huang	Director (Non-executive) (resigned 3 March 2007)
Jeffrey Ma	Director, Chief Financial Officer, Company Secretary
Ryan O'Hare	Director (Non-executive) (appointed 3 April 2007)
Stephe Wilks	Director (Non-executive) (appointed 3 April 2007)

*Executive*

Huy Nguyen	National Sales Manager
Charles Hsieh	National Sales Manager

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Short-term Employee Benefits	655,519	494,565	655,519	494,565
Post-employment Benefits	102,138	46,942	102,138	46,942
Termination Benefits	-	-	-	-
Share-based Payments	260,371	51,829	260,371	51,829
	<u>1,018,028</u>	<u>593,336</u>	<u>1,018,028</u>	<u>593,336</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 during the financial year by key management personnel is as follows:

	Balance (1) at Beginning of Year	Shares Issued under ESOP (2)	On Exercise of Options	Net Other Changes	Balance at End of Year
Chiao-Heng (Charles) Huang	53,669,089	1,407,600	-	(13,159,516)	41,917,173
Barry Chan	7,566,823	1,407,600	-	(1,979,717)	6,994,706
Bob Cheng	7,486,609	-	-	-	7,486,609
Jeffrey Ma	524,273	1,876,800	-	-	2,401,073
Huy Nguyen	291,263	622,200	-	-	913,463
Charles Hsieh	58,253	195,500	-	-	253,753

(1) The share capital of the company had been consolidated on the basis of 1 new share for each existing 1.716 shares, approved at the Annual General Meeting held on 20 April 2007.

(2) Refer to Note 25 (a) for the details relating the shares issued to the key management personnel under the ESOP.

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

**Option Holdings**

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

	Balance at Beginning of Year	Granted as Remuneration	Options Exercised	Net Other Changes	Balance at End of Year
Greg McCann	-	750,000	-	-	750,000
Chiao-Heng (Charles) Huang	-	4,000,000	-	-	4,000,000
Barry Chan	-	2,000,000	-	-	2,000,000
Bob Cheng	-	1,000,000	-	-	1,000,000
Jeffrey Ma	-	2,000,000	-	-	2,000,000
Ryan O'Hare	-	500,000	-	-	500,000
Stephe Wilks	-	500,000	-	-	500,000

Refer to Note 21 (c) for the details of options granted under the EOP.

**NOTE 25: EMPLOYEE BENEFITS**

**(a) Executive Share Ownership Plan**

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

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

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

For accounting purposes, the share issue under the ESOP has been treated as option grant and the value of the options vested has been accounted for and included in the result of the period.

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	6,800,000
Exercise Price	\$0.16
Expected Life of Options	8.2 years
Underlying Share Price	\$0.16
Expected Share Price Volatility	19.21%
Risk-free Interest Rate	6.00%
Dividend Yield	2.34%

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

Included under employee benefits expense in the income statement is \$309,587 and relates, in full, to these ESOP transactions.

**(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:

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

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

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

Options granted under the EOP are not transferable.

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

	<b>Tranche 1</b>	<b>Tranche 2</b>
Grant Date	23-May-07	23-May-07
Exercisable Date	23-Nov-07	23-Nov-08
Expiry Date	23-Nov-10	23-Nov-11
Number of Options on Issue	5,375,000	5,375,000
Exercise Price	\$0.225	\$0.25
Time to Maturity	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%	6.12%
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.

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

**(c) Superannuation Plan**

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

**(d) Expenses Arising from Share-based Payment Transactions**

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

	<b>Consolidated</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Options issued under Employee Option Plan	12,188	-	12,188	-
Shares issued under Executive Share Ownership Plan	309,587		309,587	
Shares issued under Employee Share Scheme	-	74,330	-	74,330
	<u>321,775</u>	<u>74,330</u>	<u>321,775</u>	<u>74,330</u>

**(e) Employee Numbers**

Number of full-time equivalent employees	<u>75</u>	<u>111</u>	<u>75</u>	<u>96</u>
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**NOTE 26: CONTINGENT LIABILITIES**

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

**NOTE 27: FINANCIAL INSTRUMENTS**

**(a) Interest Rate Risk**

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

**Consolidated**

	Note	Weighted Average Effective Interest Rate	Floating Interest Rate \$	Within Year \$	1 to 5 Years \$	Non-Interest Bearing \$	Total \$
<b>2007</b>							
Financial Assets							
Cash	9	5.68%	4,192,251	6,599,997	-	58,940	10,851,188
Receivables	10		-	-	-	4,260,713	4,260,713
Total Financial Assets			4,192,251	6,599,997	-	4,319,653	15,111,901
Financial Liabilities							
Trade and Sundry Creditors	18		-	-	-	14,553,518	14,553,518
Total Financial Liabilities			0	0	-	14,553,518	14,553,518

	Note	Weighted Average Effective Interest Rate	Floating Interest Rate \$	Within Year \$	1 to 5 Years \$	Non-Interest Bearing \$	Total \$
<b>2006</b>							
Financial Assets							
Cash	9	5.24%	2,741,319	576,300	-	147,681	3,465,300
Receivables	10		-	-	-	2,736,123	2,736,123
Total Financial Assets			2,741,319	576,300	-	2,883,804	6,201,423
Financial Liabilities							
Bank and Mortgage Loans	19	7.09%	293,617	251,803	-	-	545,420
Trade and Sundry Creditors	18		-	-	-	9,010,083	9,010,083
Lease Liabilities	23	10.19%	-	6,589	0	-	6,589
Total Financial Liabilities			293,617	258,392	0	9,010,083	9,562,092

**(b) Credit Risk**

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

**(c) Net Fair Values**

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

**NOTE 28: DISCONTINUED OPERATIONS**

**(a) Sale of Internet service provider Business**

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

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

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>i) Operating Result (1)</b>		
Revenue	3,609,261	9,237,734
Cost of sales	(3,163,369)	(7,566,942)
Gross profit	<u>445,892</u>	<u>1,670,792</u>
Other income	-	-
Total income	445,892	1,670,792
Operating expenses	(219,620)	(582,535)
Employee benefits expenses	(794,332)	(1,817,246)
Operating loss before interest, taxation, depreciation and amortisation	(568,060)	(728,989)
Depreciation and amortisation	(142,059)	(279,565)
Operating loss before interest and tax	(710,119)	(1,008,554)
Finance costs	-	-
Operating loss before tax from discontinued operation	(710,119)	(1,008,554)
Income tax benefit	213,036	-
Net loss attributable to discontinued operation	<u>(497,083)</u>	<u>(1,008,554)</u>

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

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

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

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

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

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

	2007 \$	2006 \$
<b>iii) Total Result of Discontinued Operation</b>		
Revenue and proceeds	6,359,261	9,237,734
Expenses and costs	(4,824,398)	(10,246,288)
Profit before finance costs	<u>1,534,863</u>	<u>(1,008,554)</u>
Finance costs	-	-
Profit before tax from discontinued operation	<u>1,534,863</u>	<u>(1,008,554)</u>
Income tax benefit	5,290	-
Net profit on sale of discontinued operation	<u><u>1,540,153</u></u>	<u><u>(1,008,554)</u></u>

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

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

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

**i) Operating Result (3)**

Revenue	682,838	611,199
Cost of sales	(316,840)	(272,847)
Gross profit	<u>365,998</u>	<u>338,352</u>
Other income	5,925	4,206
Total income	<u>371,923</u>	<u>342,558</u>
Operating expenses	(594,394)	(346,658)
Employee benefits expenses	(268,591)	(221,484)
Operating loss before interest, taxation, depreciation and amortisation	<u>(491,062)</u>	<u>(225,584)</u>
Depreciation and amortisation	(46,155)	(51,122)
Operating loss before interest and tax	<u>(537,217)</u>	<u>(276,706)</u>
Finance costs	-	-
Operating loss before tax from discontinued operation	<u>(537,217)</u>	<u>(276,706)</u>
Income tax benefit	189,789	-
Net loss attributable to discontinued operations	<u><u>(347,428)</u></u>	<u><u>(276,706)</u></u>

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

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

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

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

	<b>2007</b>	<b>2006</b>
	\$	\$
(4) Cost of investment represents the net assets attributable to the discontinued operations as follows:		
Assets		
Cash and cash equivalents	190,407	
Trade and other receivables	41,615	
Inventories	161,068	
Other current assets	21,164	
Fixed assets	186,220	
Intangibles	765	
	<u>601,239</u>	
Liabilities		
Trade and other payables	44,415	
	<u>44,415</u>	
Net assets	556,824	
Less: net consolidated assets	<u>1</u>	
Net assets attributable to discontinued operations	<u><u>556,823</u></u>	
<b>iii) Total Result of Discontinued Operation</b>		
Revenue and proceeds	702,838	611,199
Expenses and costs	<u>(1,779,599)</u>	<u>(887,905)</u>
Loss before finance costs	(1,076,761)	(276,706)
Finance costs	<u>-</u>	<u>-</u>
Loss before tax from discontinued operation	(1,076,761)	(276,706)
Income tax benefit	<u>351,652</u>	<u>-</u>
Net loss on sale of discontinued operation	<u><u>(725,109)</u></u>	<u><u>(276,706)</u></u>
<b>Net Profit/(Loss) from Discontinued Operations after Tax</b>	<u><u>815,044</u></u>	<u><u>(1,285,260)</u></u>

**NOTE 29: EVENTS AFTER THE BALANCE SHEET DATE**

The company raised an amount of \$5.0 million through its initial public offering of 25,000,000 shares at \$0.20 per share and listed on the Australian Securities Exchange on 16 July 2007.

**NOTE 30: SEGMENT REPORTING**

The consolidated entity operates in one business segment, being the provision of pre-paid telephony products and services in Australia.

Geographically, the consolidated entity operates in one segment, being the Australian market.

**NOTE 31: RELATED PARTY TRANSACTIONS**

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

During the year, the company has granted various short term loans on standard commercial terms and conditions to Bolligram International Pty Limited (Bolligram), in which Shane Huang, who is the brother of Chiao-Heng (Charles) Huang, holds a 42% shareholding. Tel.Pacific Limited and Jeffrey Ma are also shareholders of Bolligram, with shareholdings of 12% and 2% respectively. A total interest of \$20,505 (2006 - \$6,323) was charged by the company in relation to the short term loans. The balance of loans at the year end was \$50,000 (2006 - \$49,900).

During the year, the company paid various concert tickets and sponsorship fees totalling \$33,252 (2006 - \$Nil) on normal commercial terms and conditions no more favourable than those available to other parties, to Bolligram in relation to promotion of its products in concert events.

During the year, the company has paid rental totalling \$22,880 (2006 - \$20,540) 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 \$14,770 (2006 - \$13,550) 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.

On 15 May 2007, the company sold all of the issued shares in a former subsidiary, Acay Network Computing Pty Limited for a total consideration of \$20,000 to Chiao-Heng (Charles) Huang, Barry Chan and Jeffrey Ma in the proportion of 70%, 15% and 15% respectively in accordance with a share sale agreement.

**NOTE 32: COMPANY DETAILS**

The company is incorporated and domiciled in Australia.

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

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

**TEL.PACIFIC LIMITED**

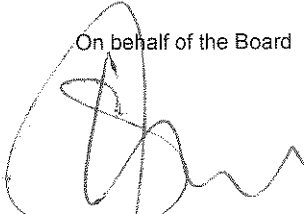
**DIRECTORS' DECLARATION**

In the opinion of the directors:


- (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including that they:
  - (i) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (ii) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date.
- (b) the directors have been given the declarations required under section 295A of the Corporations Act 2001; and
- (c) as at the date of the declaration, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board



Stephen Wilks  
Director



Chiao-Heng (Charles) Huang  
Managing Director

Dated this 5 September 2007

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**INDEPENDENT AUDITOR'S REPORT**

To the members of Tel.Pacific Limited

**Report on the Financial Report and AASB 124 remuneration disclosures contained in the directors' report.**

We have audited the accompanying financial report of Tel.Pacific Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about remuneration of directors and executives ('remuneration disclosures') required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 10 to 13 of the directors' report and not in the financial report.

*Directors' Responsibility for the Financial Report and the AASB 124 remuneration disclosures contained in the directors' report.*

The directors of the disclosing entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

***Auditor's Responsibility***

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

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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 and the remuneration disclosures included in the directors' 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 and the remuneration disclosures included in the directors' 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 and the remuneration disclosures in the directors' report.

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

*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 disclosing entity's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

*Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report*

In our opinion the remuneration disclosures that are contained in pages 10 to 13 of the directors' report comply with Accounting Standard AASB 124.

PKF

PKF



**Arthur Milner**  
**Partner**

**Sydney, 5<sup>th</sup> September 2007**