

Preliminary Final Report (Appendix 4E) – Delivering Prospectus Forecasts

- Tel.Pacific's first result as a listed company, delivers Prospectus forecasts with solid growth
- Financial Year 2007 pro forma accounts (excluding discontinued businesses):
 - Revenue increased to \$36,373,304
 - EBITDA increased to \$4,011,233
 - Net profit after tax increased to \$2,266,558
- Substantial growth in operations
 - International minutes increased to 667 million, over 40% growth for the year

Friday 31 August 2007: The Board of Tel.Pacific Limited (ASX:TPC) today released its Preliminary Final Report (Appendix 4E), setting out the unaudited full year results for the Company for the 2007 Financial Year, delivering on its Prospectus forecasts for revenue and profit.

In addition to the statutory format for the Appendix 4E accounts, the company has also reported *pro forma* results, which eliminate the businesses which were discontinued during the year. The Board believes this approach gives investors a better and more accurate insight into the ongoing operations of the Company.

2007 Results at a glance

	Pro Forma Results
Revenue	\$36,373,304
EBITDA (Earnings before interest, tax, depreciation and amortisation)	\$4,011,233
NPAT (Net profit after tax)	\$2,266,558

During the year, the Company increased the total number of international call minutes which flowed through its switches, from 470 to 667 million minutes, confirming the Company's established position as one of the key players in the international calling market.

In addition, the strong growth in both revenue and earnings demonstrates the Company's ability to continue to succeed in the pre-paid telecommunications market in Australia by:

- growing the number of retail locations offering the Company's calling cards
- expanding the product suite to target markets, by introducing new calling cards to the market
- managing costs for international call termination (and controlling overhead costs, despite ongoing growth).

During the year, the Company met the following key milestones:

- divesting non core Internet and retail businesses, to ensure focused on pre paid products
- Greater than 40% growth in overall minutes switched
- South Australia operation reached its target of 1.45 million minutes per month, from half that size 12 months ago
- Successfully integrated an outsourced call centre with the existing Tel.Pacific call centre, to provide 24 x 7 customer service capability.

As detailed in the Company's Prospectus, the Company plans to continue its organic growth path in Australia by driving sales, as well as boosting growth by establishing operations in New Zealand. The Company will also continue to investigate options for acquisition, where those options allow it to expand its customer base and earnings potential at an appropriate cost.

For more information please contact:

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About Tel.Pacific

Established in 1996, Tel.Pacific is a significant participant in the Australian communications market. The Company's core business centres around the provision of pre-paid telephony products and services through extensive distribution networks.

Since its establishment Tel.Pacific has experienced strong and sustained revenue growth. Tel.Pacific sees continued growth opportunity in its pre-paid calling card business and intends to further expand its business activities in this area as part of its long-term growth strategy.

Tel.Pacific's core product line comprises more than 30 brands of low cost pre-paid calling cards mainly used for international telephone calls to over 230 countries and regions. The Company's portfolio includes the well known Hello, Joy and GPS brands.

Appendix 4E

Preliminary Final Report Year Ended 30 June 2007

TEL.PACIFIC LIMITED
ABN 99 073 079 268

Results for Announcement to the Market

2.1	The amount and percentage change up or down from the previous corresponding year of revenue from ordinary activities	Up	40%	To \$	36,373,304
2.2	The amount and percentage change up or down from the previous corresponding year of profit from ordinary activities after tax attributable to members.	Up	215%	To \$	3,081,602
2.3	The amount and percentage change up or down from the previous corresponding period of net profit for the year attributable to members.	Up	215%	To \$	3,081,602
2.4 & 2.5	<p>On 27 November 2006, the directors of Tel.Pacific Limited declared an interim dividend on ordinary shares. The total amount of the dividend paid was \$134,243, which represented a franked (90%) dividend of 0.17 cents per share. The date of record for the interim dividend was 27 November 2006. The date of payment was 15 December 2006.</p> <p>On 2 April 2007, the directors of Tel.Pacific Limited declared a final dividend on ordinary shares. The total amount of the dividend paid was \$604,093, which represented a franked (90%) dividend of 0.77 cents per share. The date of record for the interim dividend was 2 April 2007. The date of payment was 18 April 2007.</p>				
2.6	<p>Brief explanation of results</p> <p>During the financial year Tel.Pacific Limited divested its non-core businesses, to allow the company to focus on the the provision of pre-paid telephony products and services in Australia.</p> <p>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.</p> <p>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.</p> <p>Excluding the 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.</p> <p>The pre-paid calling cards operations continue to demonstrate a substantial organic growth in revenue, rising by 40% to \$36,373,304 (2006 - \$26,009,147). The gross margin was maintained at 27% as for the previous year despite the very strong market competition.</p> <p>The efficiency ratio of operating costs to revenue has been maintained at 18% as last year.</p> <p>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 previous year.</p>				

Appendix 4E

Preliminary Final Report Year Ended 30 June 2007

Dividends

On 27 November 2006, the directors of Tel.Pacific Limited declared an interim dividend on ordinary shares. The total amount of the dividend paid was \$134,243, which represented a franked (90%) dividend of 0.17 cents per share. The date of record for the interim dividend was 27 November 2006. The date of payment was 15 December 2006.

On 2 April 2007, the directors of Tel.Pacific Limited declared a final dividend on ordinary shares. The total amount of the dividend paid was \$604,093, which represented a franked (90%) dividend of 0.77 cents per share. The date of record for the interim dividend was 2 April 2007. The date of payment was 18 April 2007.

Net Tangible Assets

Net tangible assets as at 30 June 2007 were \$3,165,657 which represented 4.01 cents per share, compared with net tangible assets as at 30 June 2006 of \$506,939 which represented 0.66 cents per share.

Controlled Entities

On 15 May 2007, the company sold all of the issued shares in its former subsidiary, Acay Network Computing Pty Limited.

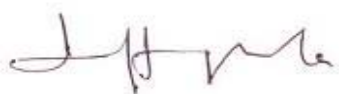
Significant Information

On 2 April 2007, the company 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.

The company raised an amount of \$5.0 million through its initial public offering, at a share price of \$0.20 per share on 16 July 2007.

Commentary

As at 30 June 2007 the company has 85,000,000 shares on issue, representing a weighted average earnings per share of 3.91 cents per share.



Company Secretary

Jeffrey Ma

31 August 2007

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		

TEL.PACIFIC LIMITED

BALANCE SHEET AS AT 30 JUNE 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
ASSETS					
Current Assets					
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	3,771,456
Inventories	11	162,747	450,392	162,747	89,363
Other current assets	12	894,283	437,190	894,283	401,534
Total Current Assets		<u>16,168,931</u>	<u>7,089,005</u>	<u>16,182,124</u>	<u>7,492,361</u>
Non-Current Assets					
Deferred tax asset	13	270,984	472,769	270,984	472,769
Financial assets	14	100	100	2,212	52,312
Other non-current assets	12	96,696	117,170	96,696	117,170
Property, plant and equipment	16	2,124,780	2,989,084	2,124,780	2,584,496
Intangible assets	17	852	1,617	852	852
Total Non-Current Assets		<u>2,493,412</u>	<u>3,580,740</u>	<u>2,495,524</u>	<u>3,227,600</u>
TOTAL ASSETS		<u>18,662,343</u>	<u>10,669,745</u>	<u>18,677,648</u>	<u>10,719,960</u>
LIABILITIES					
Current Liabilities					
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
Short term provisions	20	863,091	524,098	863,091	524,098
Total Current Liabilities		<u>15,416,609</u>	<u>9,792,573</u>	<u>15,416,609</u>	<u>9,787,075</u>
Non-Current Liabilities					
Long term borrowings	19	-	293,617	-	293,617
Long term provisions	20	79,225	74,999	79,225	74,999
Total Non-Current Liabilities		<u>79,225</u>	<u>368,616</u>	<u>79,225</u>	<u>368,616</u>
TOTAL LIABILITIES		<u>15,495,834</u>	<u>10,161,189</u>	<u>15,495,834</u>	<u>10,155,691</u>
NET ASSETS		<u>3,166,509</u>	<u>508,556</u>	<u>3,181,814</u>	<u>564,269</u>
EQUITY					
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)	(3,636,713)
TOTAL EQUITY		<u>3,166,509</u>	<u>508,556</u>	<u>3,181,814</u>	<u>564,269</u>

TEL.PACIFIC LIMITED

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

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
ISSUED CAPITAL					
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>
RESERVES					
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>
ACCUMULATED LOSSES					
Balance at start of year		(3,688,037)	(4,293,478)	(3,636,713)	(4,257,347)
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>(3,636,713)</u>
TOTAL EQUITY		<u>3,166,509</u>	<u>508,556</u>	<u>3,181,814</u>	<u>564,269</u>

TEL.PACIFIC LIMITED
**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007**

	Note	Consolidated		Company	
		2007 \$	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES					
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)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9	<u>4,633,679</u>	<u>2,393,691</u>	<u>4,826,184</u>	<u>1,857,539</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
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)
NET CASH PROVIDED/(USED) IN INVESTING ACTIVITIES		<u>1,841,054</u>	<u>(1,363,209)</u>	<u>1,841,054</u>	<u>(932,102)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
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)
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES		<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
CASH AT THE END OF FINANCIAL YEAR	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>

TEL.PACIFIC LIMITED

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 an 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.

Accounting Policies

(a) Principles of Consolidation

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

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

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

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

(b) 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.

TEL.PACIFIC LIMITED

(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.

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:

TEL.PACIFIC LIMITED

Financial Assets at Fair Value through Profit and Loss

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

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

Loans and Receivables

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

Held to Maturity Investments

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

Available for Sale Financial Assets

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

Financial Liabilities

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

Impairment

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

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.

TEL.PACIFIC LIMITED

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.

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.

TEL.PACIFIC LIMITED

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) Comparatives

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

(p) 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.

TEL.PACIFIC LIMITED

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 2: REVENUE				
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>
NOTE 3: OPERATING EXPENSES				
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>
NOTE 4: DEPRECIATION AND AMORTISATION				
Depreciation of Non-current Assets - Continued Operations	561,365	351,485	561,365	351,485
Amortisation of Research and Development	59,410	27,240	59,410	27,240
Total Depreciation and Amortisation	<u>620,775</u>	<u>378,725</u>	<u>620,775</u>	<u>378,725</u>
Depreciation of Non-current Assets - Discontinued Operations	<u>188,214</u>	<u>330,687</u>	<u>142,059</u>	<u>279,566</u>
NOTE 5: INCOME TAX EXPENSE				
The major components of income tax expense are:				
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

	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>
Income Tax Losses				
Deferred tax asset attributable to tax losses recognised	<u>-</u>	<u>233,585</u>	<u>-</u>	<u>233,585</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>

The deferred tax asset will only be obtained if:

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

Tax Consolidation

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

TEL.PACIFIC LIMITED

	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)
	Number (1)	Number
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.

None of the options on issue were considered to be potentially dilutive as the earliest date the option can be exercised is 23 November 2007.

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

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:

- Impact on franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during period	-	-
	<u>517,041</u>	<u>267,456</u>
	<u><u>517,041</u></u>	<u><u>267,456</u></u>

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

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

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
	<u>95,020</u>	<u>91,860</u>	<u>95,020</u>	<u>91,860</u>

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 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)	2,796,766	(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>

TEL.PACIFIC LIMITED

(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	<u>46,782</u>	<u>618,748</u>	<u>46,782</u>	<u>618,748</u>
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	<u>-</u>	<u>201,803</u>	<u>-</u>	<u>201,803</u>
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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 10: TRADE AND OTHER RECEIVABLES				
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	1,072,473
	<u>4,260,713</u>	<u>2,736,123</u>	<u>4,316,693</u>	<u>3,771,456</u>
NOTE 11: INVENTORIES				
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>
NOTE 12: OTHER ASSETS				
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>
Non-current:				
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>
NOTE 13: DEFERRED TAX ASSET				
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>
NOTE 14: FINANCIAL ASSETS				
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

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
				<u>2,112</u>	<u>1,580,574</u>
Provision for Diminution				-	(1,528,362)
				<u>2,112</u>	<u>52,212</u>

(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)
	<u>25,975</u>	<u>23,117</u>	<u>25,975</u>	<u>23,117</u>
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)
	<u>1,024,468</u>	<u>1,380,389</u>	<u>1,024,468</u>	<u>1,378,303</u>
Office Equipment & Software	926,167	1,381,875	926,167	882,727
Less: Accumulated Depreciation	(700,422)	(976,880)	(700,422)	(537,175)
	<u>225,745</u>	<u>404,995</u>	<u>225,745</u>	<u>345,552</u>
Office Fittings & Furniture	626,618	951,119	626,618	533,911
Less: Accumulated Depreciation	(264,445)	(267,864)	(264,445)	(193,715)
	<u>362,173</u>	<u>683,255</u>	<u>362,173</u>	<u>340,196</u>
Real Estate Properties	519,146	519,146	519,146	519,146
Less: Accumulated Depreciation	(32,727)	(21,818)	(32,727)	(21,818)
	<u>486,419</u>	<u>497,328</u>	<u>486,419</u>	<u>497,328</u>
	<u>2,124,780</u>	<u>2,989,084</u>	<u>2,124,780</u>	<u>2,584,496</u>

TEL.PACIFIC LIMITED

Movement in Carrying Amount

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

Company

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

2006 Consolidated	Motor Vehicles \$	Network Equipment & Software \$	Office Equipment & Software \$	Office Fittings & Furniture \$	Real Estate Properties \$	Total \$
Balance at the beginning of the year	29,663	1,242,144	283,762	388,753	508,237	2,452,559
Additions	-	559,397	267,333	391,967	-	1,218,697
Depreciation Expense	(6,546)	(421,152)	(146,100)	(97,465)	(10,909)	(682,172)
Balance at the end of the year	23,117	1,380,389	404,995	683,255	497,328	2,989,084

Company

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

TEL.PACIFIC LIMITED

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 17: INTANGIBLE ASSETS				
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>
NOTE 18: TRADE AND OTHER PAYABLES				
Current:				
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	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>
NOTE 19: BORROWINGS				
Short Term Borrowings				
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>
Long Term Borrowings				
Mortgage Loan	-	293,617	-	293,617
Motor Vehicle Lease	-	-	-	-
	<u>-</u>	<u>293,617</u>	<u>-</u>	<u>293,617</u>
NOTE 20: PROVISIONS				
Short Term Provisions				
Income Tax Provision	526,999	150,037	526,999	150,037
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>863,091</u>	<u>524,098</u>	<u>863,091</u>	<u>524,098</u>
Long Term Provisions				
Leave Entitlement Provision	<u>79,225</u>	<u>74,999</u>	<u>79,225</u>	<u>74,999</u>
Movements in Provisions				
(a) Income Tax Provision				
Opening balance	150,037	119,209	150,037	119,209
- additional provisions	532,582	150,037	532,582	150,037
- amount used	(155,620)	(119,209)	(155,620)	(119,209)
Closing balance	<u>526,999</u>	<u>150,037</u>	<u>526,999</u>	<u>150,037</u>
(b) 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>

TEL.PACIFIC LIMITED

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 20: PROVISIONS (continued)				
(c) 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>
(d) 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>

NOTE 21: ISSUED CAPITAL

	Consolidated		Company	
	2007		2006	
	Number	\$	Number	\$
(a) Ordinary Shares				
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) Movements in Ordinary Shares on Issue				
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.

TEL.PACIFIC LIMITED

(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:

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

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

NOTE 22: RESERVES

(a) Foreign Currency Translation Reserve

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

Balance at the beginning of the year	(4,389)	-	-	-
Loss on translation of overseas controlled entities	(7,088)	(4,389)	-	-
Balance at the end of the year	(11,477)	(4,389)	-	-

(b) Employee Equity Benefits Reserve

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

Balance at the beginning of the year	-	-	-	-
Share-based payments	321,775	-	321,775	-
Balance at the end of the year	321,775	-	321,775	-
Total Reserves	310,298	(4,389)	321,775	-

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	-	6,589	-	6,589

(b) Operating Lease Commitments

Non-cancelable 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	708,859	2,076,691	708,859	968,604

TEL.PACIFIC LIMITED

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

(c) Capital Expenditure Commitments

Capital expenditure contracted for plant and equipment

- not later than 1 year

_____ - _____ - _____ - _____

TEL.PACIFIC LIMITED

NOTES 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	102,465	46,942	102,465	46,942
Termination Benefits	-	-	-	-
Share-based Payments	260,371	51,829	260,371	51,829
	<u>1,018,355</u>	<u>593,336</u>	<u>1,018,355</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

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.

NOTES 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 with a limited recourse loan equal the purchased 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.

(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:

- 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
- 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.

TEL.PACIFIC LIMITED

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.

(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:

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

TEL.PACIFIC LIMITED

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
			\$	\$	\$	\$	\$
2007							
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			<u>4,192,251</u>	<u>6,599,997</u>	<u>-</u>	<u>4,319,653</u>	<u>15,111,901</u>
Financial Liabilities							
Trade and Sundry Creditors	18		-	-	-	14,553,518	14,553,518
Total Financial Liabilities			<u>-</u>	<u>-</u>	<u>-</u>	<u>14,553,518</u>	<u>14,553,518</u>

Consolidated	Note	Weighted Average Effective Interest Rate	Floating Interest Rate	Within Year	1 to 5 Years	Non-Interest Bearing	Total
			\$	\$	\$	\$	\$
2006							
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			<u>2,741,319</u>	<u>576,300</u>	<u>-</u>	<u>2,883,804</u>	<u>6,201,423</u>
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	-	-	6,589
Total Financial Liabilities			<u>293,617</u>	<u>258,392</u>	<u>-</u>	<u>9,010,083</u>	<u>9,562,092</u>

(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.

TEL.PACIFIC LIMITED

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:

	2007 \$	2006 \$
i) Operating Result (1)		
Revenue	3,609,261	9,237,734
Cost of sales	(3,163,369)	(7,566,942)
Gross profit	445,892	1,670,792
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	(497,083)	(1,008,554)

(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	(466,018)	-
Profit before tax on sale of discontinued operation	2,244,982	-
Income tax expense	(207,746)	-
Net profit on sale of discontinued operation	2,037,236	-

iii) Total Result of Discontinued Operation

Revenue and proceeds	6,359,261	9,237,734
Expenses and costs	(4,824,398)	10,246,288
Profit before finance costs	1,534,863	(1,008,554)
Finance costs	-	-
Profit before tax from discontinued operation	1,534,863	(1,008,554)
Income tax benefit	5,290	-
Net profit on sale of discontinued operation	1,540,153	(1,008,554)

TEL.PACIFIC LIMITED

(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:

	2007	2006
	\$	\$
i) Operating Result (2)		
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	<u>(268,591)</u>	<u>221,484</u>
Operating loss before interest, taxation, depreciation and amortisation	(491,062)	(225,584)
Depreciation and amortisation	<u>(46,155)</u>	<u>51,122</u>
Operating loss before interest and tax	(537,217)	(276,706)
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>
 (2) 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	<u>(556,823)</u>	<u>-</u>
Loss before tax on sale of discontinued operation	(539,544)	-
Income tax benefit	<u>161,863</u>	<u>-</u>
Net loss on sale of discontinued operation	<u><u>(377,681)</u></u>	<u><u>-</u></u>
 iii) Total Result of Discontinued Operation		
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	-	-
Loss before tax from discontinued operation	<u>(1,076,761)</u>	<u>(276,706)</u>
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>
 Net Profit/(Loss) from Discontinued Operations after Tax	 <u><u>815,044</u></u>	 <u><u>(1,285,260)</u></u>

TEL.PACIFIC LIMITED

NOTE 29: EVENTS AFTER THE BALANCE SHEET DATE

The company raised an amount of \$5.0 million through its initial public offering 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 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 \$34,880 (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 commercial terms and conditions no more favourable than those available to other parties, to First Goldland Pty Limited, in which Barry Chan owns 10% shareholding, in relation to the Perth Office.

NOTE 32: COMPANY DETAILS

The company is incorporated and domiciled in Australia.

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

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